



# **State and Local Taxes**

## ***An Overview and Comparative Guide***

### **2004**



**Rick Clayburgh, Tax Commissioner**

***Greetings from the Commissioner***



Dear Friend,

Welcome to the 2004 Edition of *North Dakota State and Local Taxes: An Overview and Comparative Guide*. This biennial publication is filled with information for policy makers, students, business leaders, and anyone else interested in learning about North Dakota's tax laws, state comparisons, and how North Dakota ranks when compared to other states.

North Dakota's tax rates and straightforward rules make our personal and business tax climates competitive with any in the United States. For example, in North Dakota you don't have to pay tax on the sales of many items that other states tax such as electricity, many professional services, and groceries. North Dakota's corporation income tax and individual income taxes are among the lowest of any state that levies a corporation or individual income tax.

We are committed to ensuring that North Dakota's tax law administration is as fair and burden-free as possible. And, my top priority continues to be providing the best customer service possible. Using leading-edge technology, we are able to provide taxpayers the convenience of electronic services which, in turn, allow us to quickly and accurately process tax returns and tax payments.

We are always interested in hearing from you. Feel free to share your suggestions or concerns about North Dakota taxes.

Sincerely,

A handwritten signature in cursive script that reads "Rick Clayburgh". The signature is written in dark ink and is positioned above the printed name.

Rick Clayburgh  
Tax Commissioner

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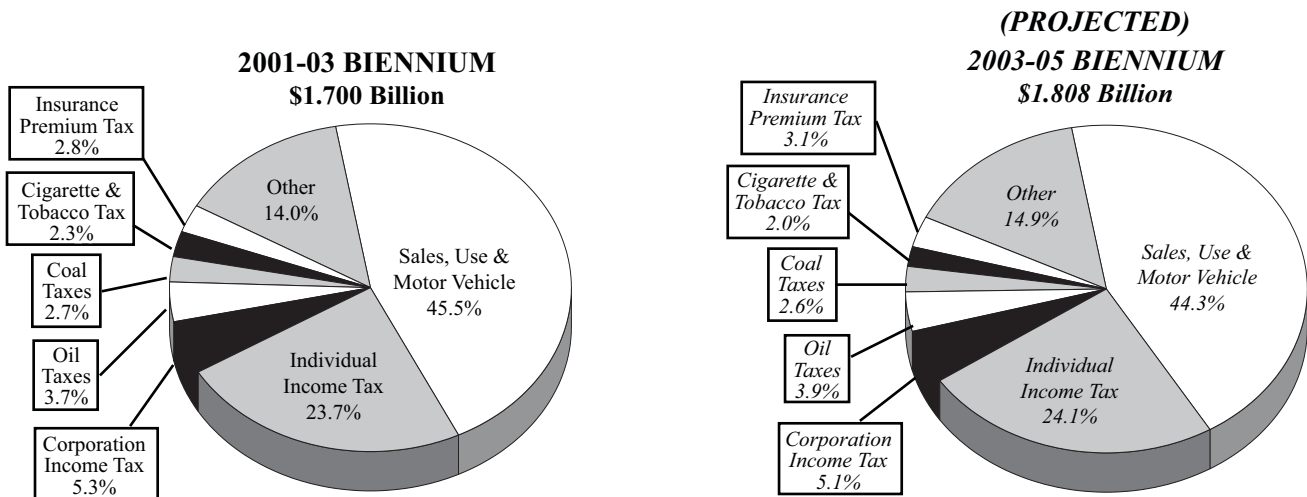


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# REVENUE OVERVIEW

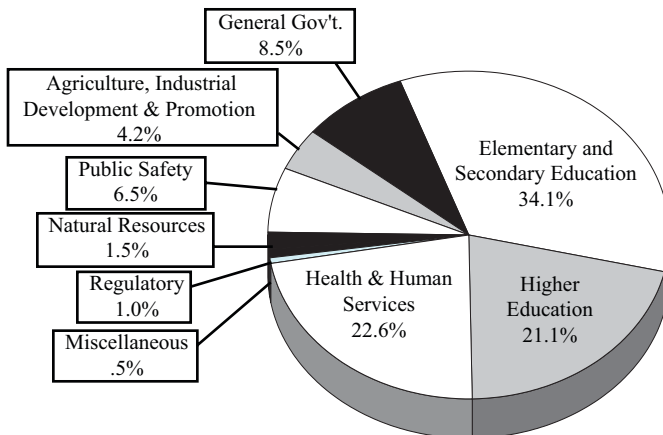
This chapter contains historical comparisons of North Dakota revenue. General fund information is given, as well as trends in collections.

## Comparison of Revenue Sources Percent of Total State General Fund (Including Beginning Balance)

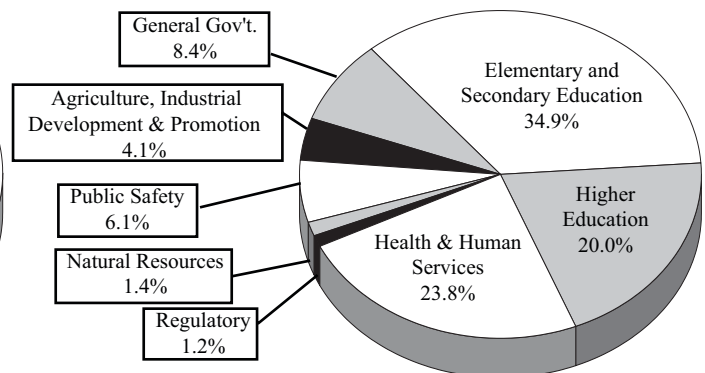


## Comparison of Expenditures Percent of Total State General Fund

**2001-03 General Fund Expenditures By Program**  
Total = \$1.729 Billion



**2003-05 General Fund Appropriations <sup>(1)</sup>**  
Total = \$1.803.66 Billion



<sup>(1)</sup> This is the amount appropriated by the 2003 Legislative Assembly. Actual expenditures will vary from appropriated levels.

SOURCE: Office of Management and Budget.

# State General Fund Budget by Revenue Sources

## 1993-95 through 2003-05 Biennia (in Millions)

REVENUE SOURCES	Biennium Revenues					Projected 2003-05 Biennium
	1993-95	1995-97	1997-99	1999-01	2001-03	
INTEREST, MINERAL LEASES, TRANSFERS						
- Interest Income	13.603	15.555	19.014	20.832	8.509	12.629
- Mineral Leasing Fees	5.445	5.630	7.258	9.532	6.441	4.215
- Bank of ND Profits Transfer	14.100	50.215	29.600	50.000	78.700	60.000
- State Mill Profits Transfer		1.000	3.000	3.000	6.000	5.000
- Gas Tax Administration Transfer	1.025	1.072	1.129	1.381	1.363	1.396
- Budget Stabilization Fund Transfer	23.328					
- State Aid Distribution Fund Transfer <sup>(1)</sup>		21.980	28.017			
- Other Transfers	28.085	3.000	8.697	5.159	24.370	90.350
SALES, USE AND MOTOR VEHICLE	551.586	605.471	664.365	722.182	760.211	801.549
INDIVIDUAL INCOME TAX	279.780	315.516	358.288	409.331	396.153	435.255
CORPORATION INCOME TAX	94.755	99.348	123.420	99.135	88.417	91.450
OIL TAXES	52.889	55.030	43.677	62.000	62.000	71.000
COAL TAXES	46.789	46.310	46.383	47.846	46.879	47.221
CIGARETTE AND TOBACCO TAXES	44.865	45.030	44.091	41.706	39.313	36.709
INSURANCE PREMIUM TAX	32.120	36.969	33.133	39.113	48.990	55.869
WHOLESALE LIQUOR TAX	10.370	10.339	11.140	10.322	11.156	11.634
BUSINESS PRIVILEGE TAX/ FINANCIAL INSTITUTIONS TAX	5.489	3.854	6.494	5.465	6.257	5.200
GAMING TAXES	24.281	22.848	22.802	27.438	27.613	23.145
LOTTERY						1.431
DEPARTMENTAL FEES & COLLECTIONS	22.083	28.737	32.997	40.816	57.506	54.410
<b>TOTAL GENERAL FUND REVENUES</b>	<b>1,249.247</b>	<b>1,381.369</b>	<b>1,483.505</b>	<b>1,595.258</b>	<b>1,669.878</b>	<b>1,808.464</b>
BEGINNING BALANCE	19.763	31.151	65.000	61.114	62.241	14.790
REVENUES AND BEGINNING BALANCE	1,269.010	1,412.520	1,548.505	1,656.372	1,732.119	1,823.254
FUNDS RELATED TO PRIOR BIENNIUM CARRY-OVER AND ADJUSTMENTS	1.230	5.527	8.172	10.155	13.996	
REVENUE AVAILABLE DURING BIENNIUM	1,270.240	1,418.047	1,556.677	1,666.527	1,746.115	1,823.254
GENERAL FUND EXPENDITURES	1,230.607	1,328.655	1,485.463	1,592.975	1,723.561	1,803.661
OBLIGATIONS CARRIED OVER TO FUTURE PERIODS	15.264	8.482	7.275	11.311	7.764	
<b>UNOBLIGATED ENDING BALANCE</b>	<b>31.151</b>	<b>82.117<sup>(2)</sup></b>	<b>61.114</b>	<b>62.241</b>	<b>14.790</b>	<b>19.593</b>

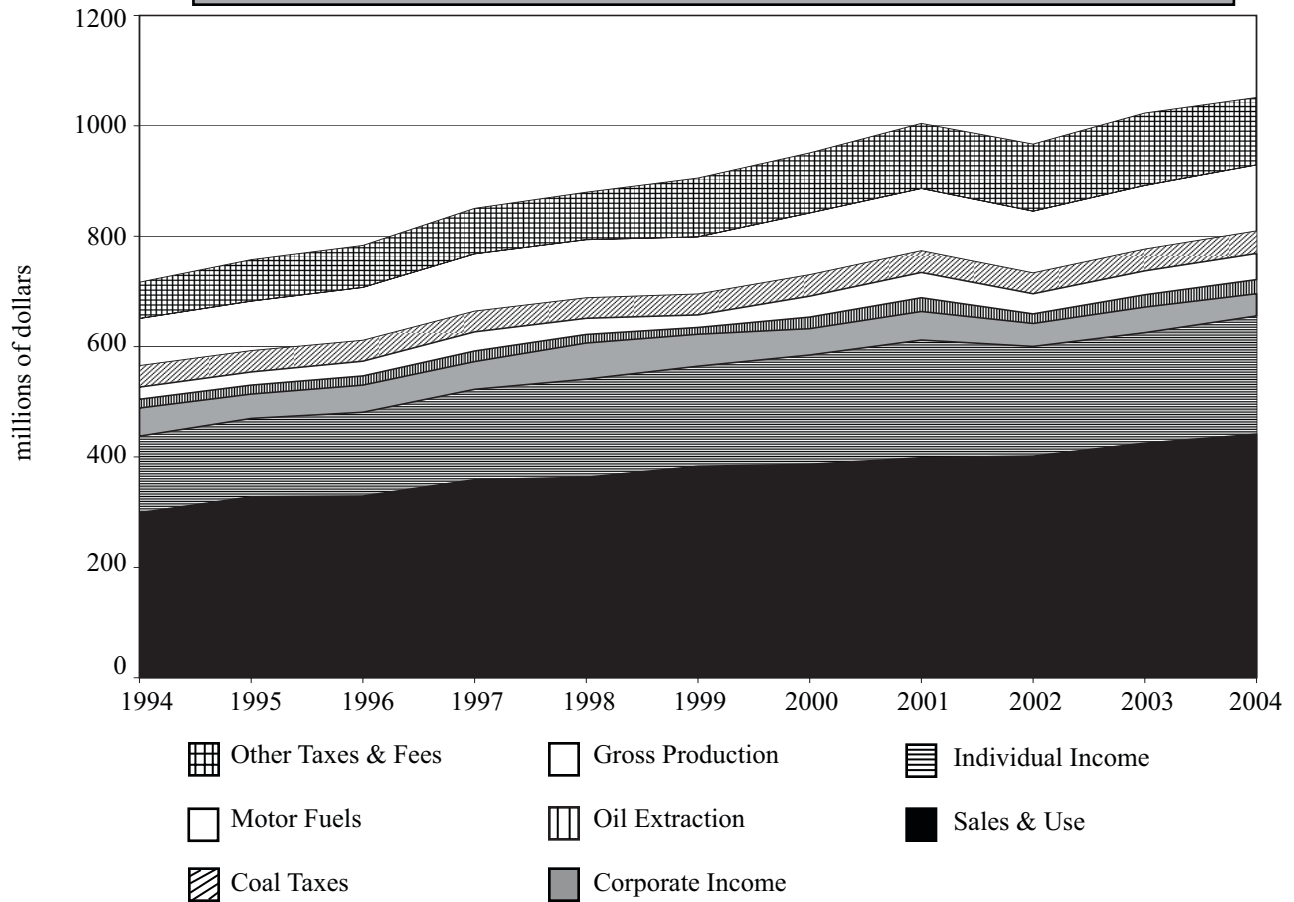
<sup>(1)</sup> A portion of sales, use and motor vehicle excise taxes is deposited in the State Aid Distribution Fund (S.A.D.F.) and that revenue is not included in this table. As of January 1, 1999, the portion is 40% x 1% ÷ general sales tax rate. However, during the two biennia shown, the legislature transferred funds from the S.A.D.F. to the General Fund as shown in the table.

<sup>(2)</sup> House Bill 1015 provided that any amount in the general fund over \$65 million be transferred to the Bank of North Dakota. Seventeen million (\$17 million) was transferred to the Bank of North Dakota, leaving an ending fund balance of \$65 million.



## Office of State Tax Commissioner Net Collections

### Fiscal Years 1994-2004



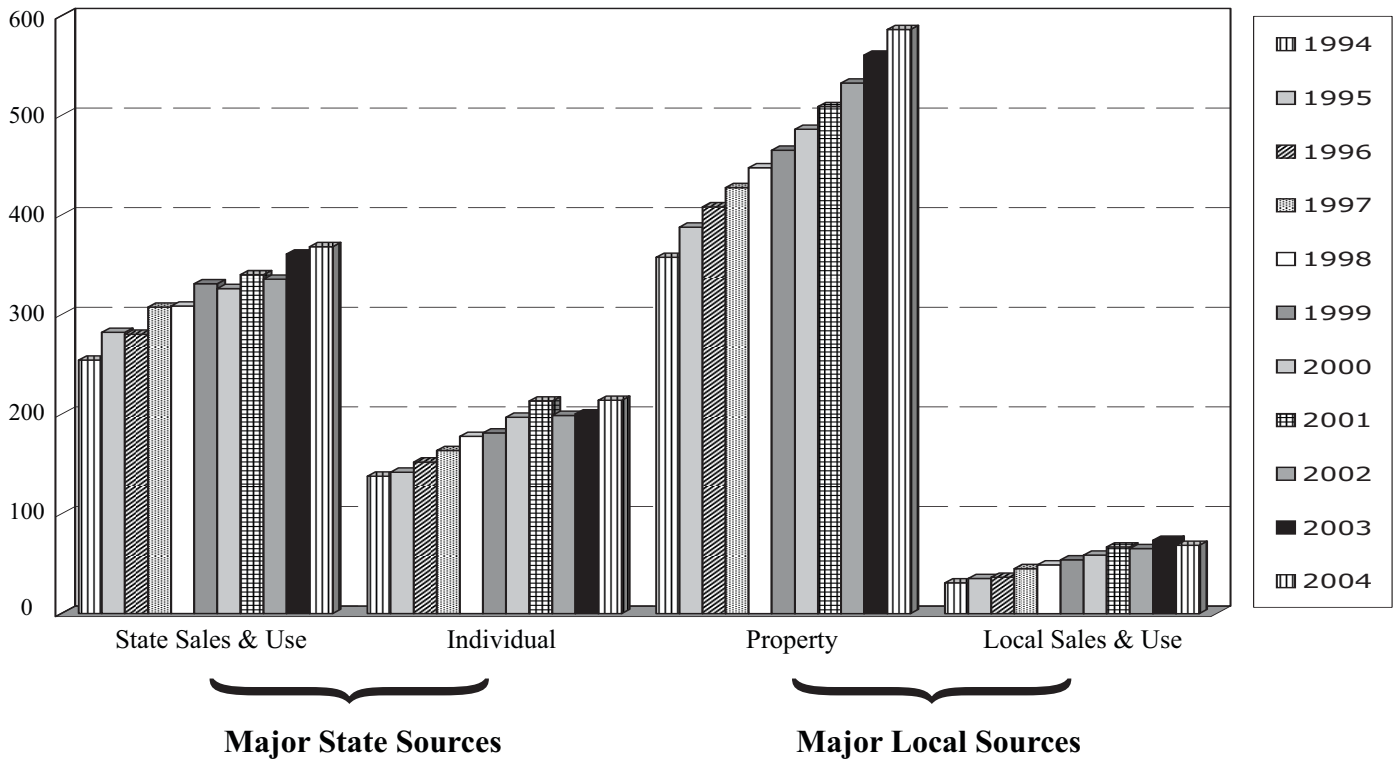
Tax Type	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Sales &amp; Use</b>	298.9	327.9	329.1	358.9	363.2	383.2	386.6	398.6	401.6	424.9	441.4
<b>Ind. Income</b>	137.9	141.9	152.1	163.7	177.9	181.4	198.3	213.4	198.9	200.5	214.1
<b>Corp. Income</b>	50.7	44.0	49.0	50.3	65.5	57.9	47.5	51.6	41.6	46.0	40.3
<b>Oil Extraction</b>	16.2	16.4	16.5	19.1	15.3	12.1	21.0	24.8	17.1	22.6	25.6
<b>Gross Production</b>	22.1	23.8	26.9	34.8	29.5	22.7	38.0	46.0	36.5	43.5	47.5
<b>Coal Taxes</b>	38.8	38.9	37.9	37.6	37.3	38.3	39.0	39.5	38.2	39.4	40.6
<b>Motor Fuels</b>	85.5	89.5	96.0	103.7	105.1	103.1	111.8	112.7	111.7	115.3	119.9
<b>Other Taxes &amp; Fees</b>	66.6	75.2	75.6	82.4	86.0	106.9	108.9	117.7	121.3	131.2	121.9
<b>Total Net Collections*</b>	<b>716.9</b>	<b>757.6</b>	<b>783.2</b>	<b>850.5</b>	<b>879.8</b>	<b>905.4</b>	<b>951.1</b>	<b>1004.3</b>	<b>966.9</b>	<b>1023.4</b>	<b>1051.3</b>

\*Totals may not sum due to rounding

SOURCE: Office of State Tax Commissioner

## Source of Major State and Local Taxes 1994-2004

Millions



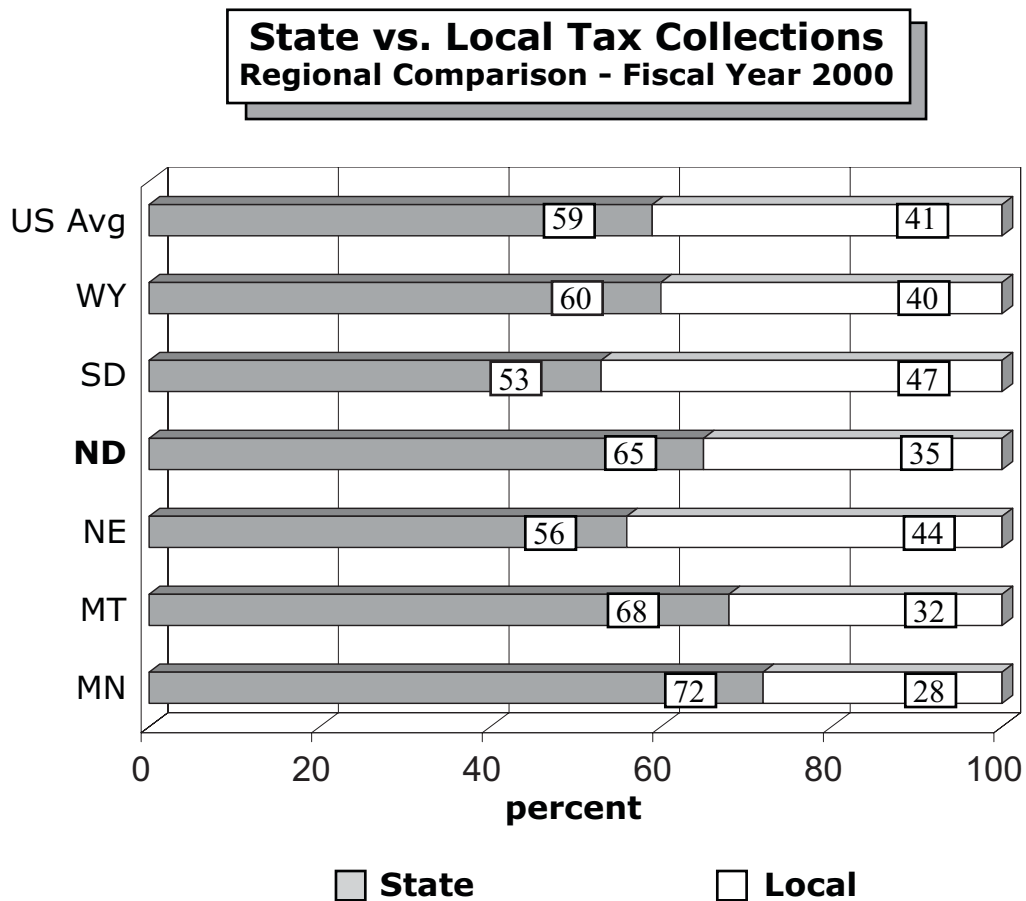
<b>Fiscal Year</b>	<b>State Sales &amp; Use Tax</b>	<b>Individual Income Tax</b>	<b>Property Tax</b>	<b>Local Sales &amp; Use Tax</b>
1994	254,419,108	137,879,059	357,598,089	30,866,426
1995	282,291,474	141,923,858	387,979,413	35,243,461
1996	280,319,012	152,087,864	408,353,215	36,534,413
1997	307,583,834	163,732,247	427,677,147	45,184,127
1998	308,636,871	177,904,251	447,582,274	48,929,646
1999	331,027,859	181,389,034	465,203,396	54,058,001
2000	326,261,978	197,101,325	486,194,264	58,711,263
2001	340,114,569	213,442,150	509,032,721	66,961,363
2002	335,598,693	198,922,525	532,629,675	65,368,838
2003	360,908,220	200,528,205	560,751,909	73,666,551
2004	368,323,637	214,145,899	586,412,017	68,644,864

\* The local sales tax figures do not include city occupancy or city restaurant and lodging taxes.

SOURCE: Office of State Tax Commissioner.

# STATE COMPARISONS

This chapter provides a comparison of overall tax levels between the states.\* There are a variety of ways to rank and compare state taxes. We have used a number of different sources to give you a broad range of research. Each measurement provides insights, but also has limitations. Please contact the Office of State Tax Commissioner for more information about the various measurements.



SOURCE: US Bureau of Census. "Government Finance"

\* The rankings of specific types of taxes are found throughout this publication. Those comparisons are located within the chapter relating to that particular type of tax.

## Comparing the 50 States' Combined State/Local Tax Burdens in 2004 (Measuring Taxes as a Percentage of Income)

Each state's total tax burden (taxes as a percentage of income) is a combination of federal, state, and local tax burdens. It can be instructive to strip out federal taxes and compare just the state and local tax burdens. Generally, high-income states rise because, with their high costs of living and commensurately higher salaries, they are hit harder by the progressive federal income tax. Low-income states that have high state-local tax burdens fall in the ranking when federal taxes are added in.

	State and Local			Total		Change in Ranking After Adding Federal Taxes
	Tax Burden	Rank		Tax Burden	Rank	
New York	12.9%	1	New York	32.3%	2	-1
Maine	12.3%	2	Maine	28.9%	6	-4
Ohio	11.3%	3	Ohio	27.5%	17	-14
Hawaii	11.3%	4	Hawaii	27.1%	23	-19
Rhode Island	11.1%	5	Rhode Island	29.2%	5	0
Wisconsin	11.1%	6	Wisconsin	28.2%	11	-5
Utah	10.8%	7	Utah	27.0%	24	-17
West Virginia	10.6%	8	West Virginia	26.0%	38	-30
Connecticut	10.6%	9	Connecticut	32.3%	1	8
Minnesota	10.5%	10	Minnesota	28.1%	12	-2
Idaho	10.4%	11	Idaho	26.2%	35	-24
Vermont	10.4%	12	Vermont	27.6%	16	-4
Michigan	10.2%	13	Michigan	27.4%	20	-7
Nebraska	10.2%	14	Nebraska	26.3%	34	-20
New Jersey	10.1%	15	New Jersey	29.9%	3	12
Indiana	10.1%	16	Indiana	26.7%	28	-12
Kentucky	10.0%	17	Kentucky	26.1%	36	-19
Georgia	10.0%	18	Georgia	27.3%	21	-3
Mississippi	10.0%	19	Mississippi	25.2%	45	-26
Arizona	10.0%	20	Arizona	27.2%	22	-2
Washington	9.9%	21	Washington	28.8%	7	14
Kansas	9.9%	22	Kansas	26.5%	30	-8
Louisiana	9.9%	23	Louisiana	25.4%	44	-21
Maryland	9.9%	24	Maryland	27.7%	15	9
Arkansas	9.8%	25	Arkansas	25.9%	39	-14
California	9.8%	26	California	28.4%	10	16
Iowa	9.8%	27	Iowa	25.6%	41	-14
Montana	9.8%	28	Montana	26.0%	37	-9
New Mexico	9.7%	29	New Mexico	27.5%	18	11
Nevada	9.7%	30	Nevada	28.4%	9	21
North Carolina	9.7%	31	North Carolina	26.4%	32	-1
Illinois	9.7%	32	Illinois	27.9%	13	19
<b>NORTH DAKOTA</b>	<b>9.7%</b>	<b>33</b>	<b>NORTH DAKOTA</b>	<b>25.5%</b>	<b>42</b>	<b>-9</b>
Oregon	9.5%	34	Oregon	26.5%	31	3
Pennsylvania	9.4%	35	Pennsylvania	26.5%	29	6
Massachusetts	9.4%	36	Massachusetts	29.6%	4	32
Virginia	9.3%	37	Virginia	27.4%	19	18
Missouri	9.3%	38	Missouri	25.9%	40	-2
Oklahoma	9.2%	39	Oklahoma	25.2%	46	-7
Colorado	9.1%	40	Colorado	27.8%	14	26
Alabama	9.1%	41	Alabama	25.0%	49	-8
South Dakota	9.0%	42	South Dakota	25.4%	43	-1
South Carolina	9.0%	43	South Carolina	25.1%	47	-4
Wyoming	8.9%	44	Wyoming	28.6%	8	36
Florida	8.8%	45	Florida	27.0%	25	20
Texas	8.7%	46	Texas	26.8%	26	20
Tennessee	8.5%	47	Tennessee	25.1%	48	-1
Delaware	8.2%	48	Delaware	26.3%	33	15
New Hampshire	7.5%	49	New Hampshire	26.7%	27	22
Alaska	6.3%	50	Alaska	23.6%	50	0
District of Columbia	12.8%	-	District of Columbia	32.1%	-	-
U.S. Average	10.0%		U.S. Average	27.8%		

Source: Tax Foundation

## Taxes Per Capita and as a Percent of Income, Fiscal Year 2002, by State

	Per Capita Total Taxes	Per Capita Federal Taxes	Per Capita State/Local Taxes	Per Capita Income	Total Taxes as % of Income	Federal Taxes as % of Income	State/Local Taxes as % of Income	Total Taxes as % of Income Rank	State & Local Taxes as % of Income Rank
United States	\$9,751	\$6,261	\$3,490	\$35,039	27.8	17.9	10.0	-	-
Alabama	7,202	4,590	2,612	28,798	25.0	15.9	9.1	49	41
Alaska	8,542	6,255	2,287	36,267	23.6	17.2	6.3	50	50
Arizona	8,036	5,101	2,935	29,491	27.2	17.3	10.0	23	20
Arkansas	6,941	4,304	2,638	26,788	25.9	16.1	9.8	39	25
California	10,621	6,944	3,676	37,456	28.4	18.5	9.8	11	26
Colorado	10,343	6,952	3,391	37,154	27.8	18.7	9.1	14	40
Connecticut	15,681	10,562	5,119	48,489	32.3	21.8	10.6	1	9
Delaware	9,633	6,626	3,008	36,665	26.3	18.1	8.2	34	48
Florida	8,991	6,053	2,938	33,322	27.0	18.2	8.8	25	45
Georgia	8,847	5,605	3,242	32,457	27.3	17.3	10.0	21	18
Hawaii	9,247	5,382	3,865	34,173	27.1	15.7	11.3	22	4
Idaho	7,454	4,499	2,956	28,474	26.2	15.8	10.4	35	11
Illinois	10,524	6,863	3,661	37,695	27.9	18.2	9.7	13	32
Indiana	8,572	5,332	3,241	32,127	26.7	16.6	10.1	26	16
Iowa	8,392	5,182	3,211	32,777	25.6	15.8	9.8	41	27
Kansas	8,747	5,474	3,273	32,999	26.5	16.6	9.9	30	22
Kentucky	7,659	4,721	2,938	29,343	26.1	16.1	10.0	36	17
Louisiana	7,384	4,502	2,882	29,107	25.4	15.5	9.9	43	23
Maine	9,208	5,302	3,907	31,885	28.9	16.6	12.3	6	2
Maryland	11,369	7,311	4,059	41,079	27.7	17.8	9.9	15	24
Massachusetts	13,148	8,971	4,177	44,410	29.6	20.2	9.4	4	36
Michigan	9,380	5,884	3,495	34,222	27.4	17.2	10.2	18	13
Minnesota	10,929	6,863	4,066	38,829	28.1	17.7	10.5	12	10
Mississippi	6,513	3,940	2,573	25,814	25.2	15.3	10.0	45	19
Missouri	8,501	5,443	3,058	32,840	25.9	16.6	9.3	40	38
Montana	7,455	4,659	2,796	28,666	26.0	16.3	9.8	38	28
Nebraska	9,059	5,548	3,512	34,499	26.3	16.1	10.2	33	14
Nevada	9,601	6,312	3,289	33,770	28.4	18.7	9.7	9	30
New Hampshire	10,394	7,487	2,906	38,918	26.7	19.2	7.5	28	49
New Jersey	13,503	8,936	4,567	45,099	29.9	19.8	10.1	3	15
New Mexico	7,536	4,864	2,671	27,407	27.5	17.7	9.7	19	29
New York	13,140	7,910	5,230	40,685	32.3	19.4	12.9	2	1
North Carolina	8,168	5,159	3,009	30,899	26.4	16.7	9.7	32	31
<b>NORTH DAKOTA</b>	<b>8,142</b>	<b>5,049</b>	<b>3,093</b>	<b>31,917</b>	<b>25.5</b>	<b>15.8</b>	<b>9.7</b>	<b>42</b>	<b>33</b>
Ohio	9,186	5,409	3,777	33,370	27.5	16.2	11.3	16	3
Oklahoma	7,231	4,584	2,646	28,667	25.2	16	9.2	46	39
Oregon	8,521	5,477	3,044	32,162	26.5	17	9.5	31	34
Pennsylvania	9,656	6,223	3,432	36,401	26.5	17.1	9.4	29	35
Rhode Island	10,418	6,442	3,976	35,704	29.2	18	11.1	5	5
South Carolina	7,222	4,638	2,584	28,772	25.1	16.1	9.0	48	43
South Dakota	8,146	5,266	2,880	32,052	25.4	16.4	9.0	44	42
Tennessee	7,800	5,170	2,630	31,112	25.1	16.6	8.5	47	47
Texas	8,559	5,763	2,797	31,967	26.8	18	8.7	27	46
Utah	7,318	4,404	2,915	27,094	27.0	16.3	10.8	24	7
Vermont	9,385	5,858	3,527	33,981	27.6	17.2	10.4	17	12
Virginia	10,159	6,705	3,453	37,044	27.4	18.1	9.3	20	37
Washington	10,800	7,071	3,729	37,502	28.8	18.9	9.9	7	21
West Virginia	6,980	4,138	2,842	26,882	26.0	15.4	10.6	37	8
Wisconsin	9,684	5,877	3,807	34,292	28.2	17.1	11.1	10	6
Wyoming	10,132	6,970	3,162	35,461	28.6	19.7	8.9	8	44
Dist. of Columbia	16,083	9,665	6,418	50,126	32.1	19.3	12.8	--	--

Note: Totals may not sum due to rounding.

SOURCE: Tax Foundation

## Estimated Burden of Major State & Local Taxes for a Family of Four - 2003

### \$25,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
<b>Income</b>	\$70	\$394	\$0	\$0	\$0	\$172
<b>Property</b>	\$1,089	\$653	\$859	\$780	\$388	\$988
<b>Sales</b>	\$349	\$0	\$365	\$492	\$469	\$458
<b>Auto</b>	\$227	\$421	\$229	\$203	\$190	\$283
<b>Total</b>	\$1,735	\$1,468	\$1,454	\$1,475	\$1,047	\$1,901
<b>% of Income</b>	6.9%	5.9%	5.8%	5.9%	4.2%	7.6%
<b>National rank</b>	27	40	41	37	50	17

### \$50,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
<b>Income</b>	\$582	\$1,488	\$1,526	\$0	\$0	\$1,179
<b>Property</b>	\$2,074	\$1,243	\$1,699	\$1,485	\$738	\$1,882
<b>Sales</b>	\$664	\$0	\$695	\$938	\$893	\$872
<b>Auto</b>	\$206	\$277	\$261	\$180	\$200	\$280
<b>Total</b>	\$3,526	\$3,008	\$4,181	\$2,603	\$1,831	\$4,213
<b>% of Income</b>	7.1%	6.0%	8.4%	5.2%	3.7%	8.4%
<b>National rank</b>	38	45	25	47	50	23

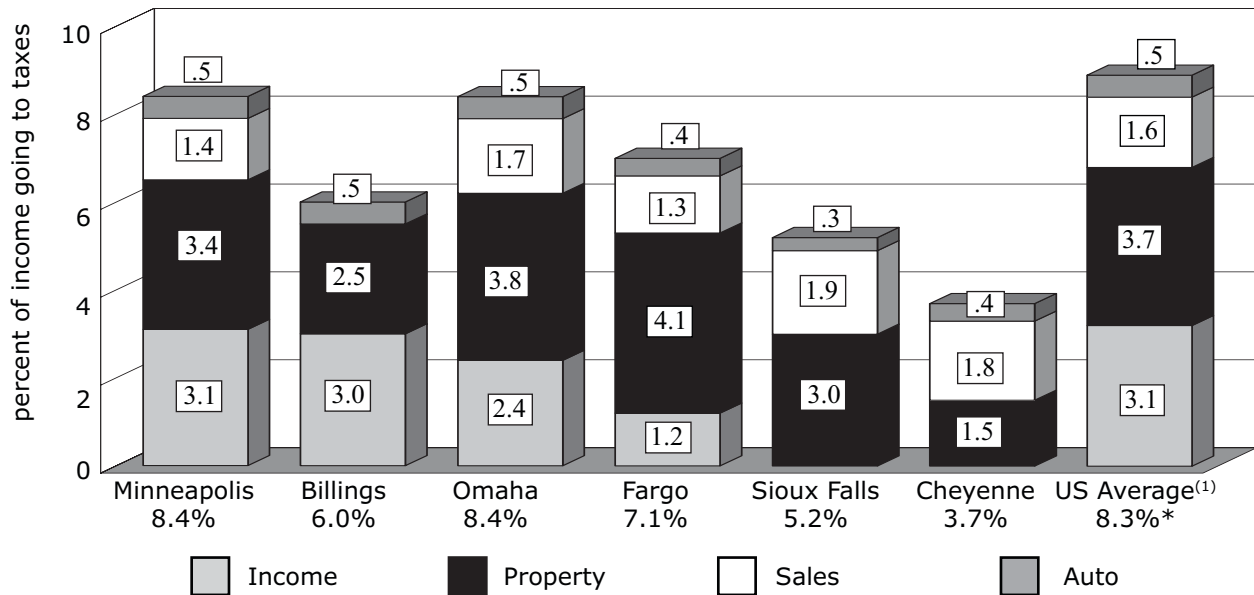
### \$100,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
<b>Income</b>	\$1,787	\$5,028	\$4,363	\$0	\$0	\$3,974
<b>Property</b>	\$3,941	\$2,362	\$3,289	\$2,822	\$1,403	\$3,576
<b>Sales</b>	\$1,262	\$0	\$1,321	\$1,781	\$1,697	\$1,657
<b>Auto</b>	\$363	\$680	\$559	\$328	\$496	\$656
<b>Total</b>	\$7,353	\$8,070	\$9,532	\$4,931	\$3,596	\$9,863
<b>% of Income</b>	7.4%	8.1%	9.5%	4.9%	3.6%	9.9%
<b>National rank</b>	40	37	22	47	51	19

SOURCE: Tax Rates and Tax Burdens In the District of Columbia - A Nationwide Comparison 2003, Government of the District of Columbia.

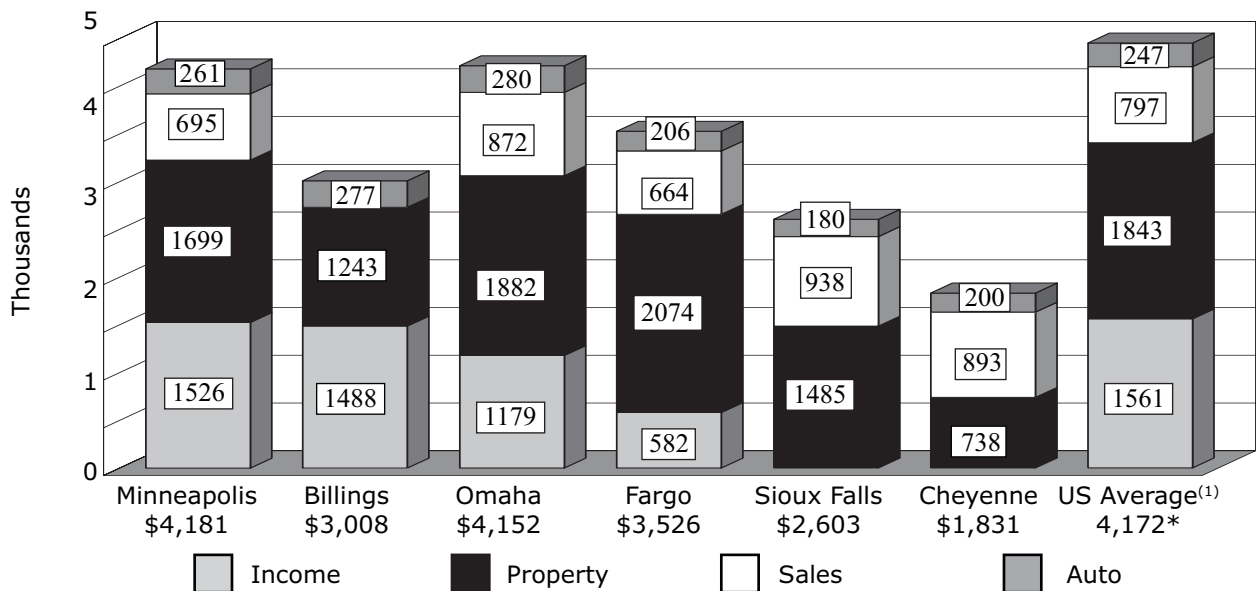


## Major Taxes as a Percent of Income Family of 4 - \$50,000 per year



SOURCE: Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison 2003, Government of the District of Columbia

## Major Tax Burden for Family of Four Earning \$50,000 per year



\* Amounts may not add due to rounding.

<sup>(1)</sup> Based on cities actually levying tax

SOURCE: Tax Rates and Tax Burdens in the District of Columbia - A Nationwide Comparison 2003, Government of the District of Columbia

## State Taxes by Source - Fiscal Year 2002

	General Sales & Use	Individual Income	Corporate Income	Motor Fuels	Licenses	All Other
Alabama	25.4%	34.9%	4.7%	7.4%	5.7%	21.8%
Alaska	0.0	0.0	24.7	3.7	6.8	64.8
Arizona	50.6	24.7	4.1	7.4	3.2	10.1
Arkansas	38.1	29.6	3.2	8.2	4.7	16.2
California	30.6	42.5	6.9	4.2	7.3	8.4
Colorado	27.5	50.2	3.0	8.2	4.0	7.1
Connecticut	33.7	40.8	1.7	4.7	4.5	14.7
Delaware	0.0	33.0	11.6	5.0	35.9	14.6
Florida	58.1	0.0	4.9	7.3	6.3	23.5
Georgia	35.1	47.1	4.1	4.7	3.6	5.4
Hawaii	47.1	32.5	1.5	2.3	3.3	13.3
Idaho	35.0	37.1	3.4	9.4	9.8	5.3
Illinois	28.6	30.9	9.2	6.1	8.5	16.7
Indiana	38.0	35.4	6.7	6.7	3.0	10.2
Iowa	34.9	35.3	1.8	6.9	10.4	10.8
Kansas	37.4	38.6	2.5	7.8	4.8	8.9
Kentucky	29.0	33.6	3.8	5.8	6.8	21.1
Louisiana	31.7	24.2	3.6	7.6	7.0	25.9
Maine	31.8	40.8	2.9	7.3	5.7	11.4
Maryland	24.9	43.5	3.3	6.5	4.0	17.8
Massachusetts	24.9	53.4	5.5	4.5	3.4	8.3
Michigan	35.6	28.0	9.4	5.0	5.9	16.0
Minnesota	28.9	42.1	4.2	4.8	6.7	13.3
Mississippi	49.5	20.8	4.1	8.7	6.4	10.5
Missouri	32.9	41.7	3.5	8.0	5.4	8.6
Montana	0.0	35.9	4.7	13.3	13.8	32.3
Nebraska	35.7	38.5	3.6	10.3	6.5	5.3
Nevada	52.5	0.0	0.0	6.7	11.1	29.7
New Hampshire	0.0	3.8	20.0	6.4	9.1	60.7
New Jersey	32.7	37.3	6.0	2.9	5.2	15.9
New Mexico	36.9	27.1	3.4	5.5	4.7	22.4
New York	19.9	59.1	5.2	1.1	2.4	12.2
North Carolina	20.7	46.8	4.3	7.8	5.7	14.8
<b>NORTH DAKOTA</b>	<b>30.0</b>	<b>17.9</b>	<b>4.5</b>	<b>9.9</b>	<b>9.2</b>	<b>28.5</b>
Ohio	32.6	42.5	3.9	7.0	8.0	6.1
Oklahoma	25.3	37.8	2.9	6.8	13.6	13.7
Oregon	0.0	71.5	3.8	7.8	9.7	7.3
Pennsylvania	33.1	30.4	5.4	7.9	9.4	13.7
Rhode Island	34.4	38.7	1.3	6.1	4.3	15.1
South Carolina	40.6	34.0	3.8	7.2	5.4	9.1
South Dakota	53.6	0.0	4.2	12.6	13.6	16.0
Tennessee	60.0	1.9	6.5	10.4	10.7	10.6
Texas	50.8	0.0	0.0	9.9	13.2	26.1
Utah	38.2	40.9	2.8	8.6	3.8	5.7
Vermont	14.0	24.4	2.4	5.6	4.5	49.0
Virginia	21.9	52.5	2.4	6.6	4.2	12.3
Washington	62.6	0.0	0.0	5.9	5.0	26.5
West Virginia	27.1	29.1	6.2	8.4	4.9	24.2
Wisconsin	31.3	42.1	4.4	8.1	5.5	8.6
Wyoming	40.7	0.0	0.0	6.9	8.7	43.7
All States	33.5%	34.7%	4.9%	6.0%	6.6%	14.3%

SOURCE: Tax Foundation, based on data from the Department of Commerce, Bureau of the Census.

## Total State Tax Collections Per Capita - Fiscal Year 2003

<u>Rank</u>	<u>State</u>	<u>Per Capita Total State Tax Collections</u>
1	Hawaii	\$2,838
2	Connecticut	\$2,730
3	Minnesota	\$2,649
4	Delaware	\$2,602
5	Vermont	\$2,518
6	Wyoming	\$2,429
7	Massachusetts	\$2,427
8	New Jersey	\$2,308
9	Michigan	\$2,257
10	California	\$2,232
11	Wisconsin	\$2,227
12	New York	\$2,114
13	Washington	\$2,114
14	Rhode Island	\$2,097
15	Maine	\$2,065
16	Kentucky	\$2,022
17	Maryland	\$1,993
18	West Virginia	\$1,983
19	Nebraska	\$1,925
20	New Mexico	\$1,924
21	Arkansas	\$1,888
22	North Carolina	\$1,885
23	Pennsylvania	\$1,875
24	<b>NORTH DAKOTA</b>	<b>\$1,858</b>
25	Nevada	\$1,843
26	Kansas	\$1,839
27	Indiana	\$1,810
28	Ohio	\$1,806
29	Virginia	\$1,756
30	Illinois	\$1,750
31	Iowa	\$1,719
32	Mississippi	\$1,717
33	Idaho	\$1,716
34	Oklahoma	\$1,682
35	Utah	\$1,680
36	Louisiana	\$1,656
37	Alaska	\$1,648
38	Montana	\$1,620
39	Oregon	\$1,602
40	Florida	\$1,581
41	Arizona	\$1,557
42	Georgia	\$1,544
43	South Carolina	\$1,532
44	New Hampshire	\$1,521
45	Missouri	\$1,513
46	Tennessee	\$1,508
47	Colorado	\$1,458
48	Alabama	\$1,426
49	South Dakota	\$1,322
50	Texas	\$1,316
	US Average	\$1,884

## Total State Taxes Except Severance Taxes Per Capita - 2003

<u>Rank</u>	<u>State</u>	<u>Total Tax Less Severance Tax</u>
1	Hawaii	\$2,838
2	Connecticut	\$2,730
3	Minnesota	\$2,644
4	Delaware	\$2,602
5	Vermont	\$2,518
6	Massachusetts	\$2,427
7	New Jersey	\$2,308
8	Michigan	\$2,252
9	California	\$2,232
10	Wisconsin	\$2,226
11	New York	\$2,114
12	Washington	\$2,108
13	Rhode Island	\$2,097
14	Maine	\$2,065
15	Maryland	\$1,993
16	Kentucky	\$1,980
17	Nebraska	\$1,924
18	North Carolina	\$1,885
19	Arkansas	\$1,882
20	West Virginia	\$1,876
21	Pennsylvania	\$1,875
22	Nevada	\$1,832
23	Indiana	\$1,810
24	Kansas	\$1,808
25	Ohio	\$1,805
26	Virginia	\$1,756
27	Illinois	\$1,750
28	Iowa	\$1,719
29	Idaho	\$1,714
30	Mississippi	\$1,701
31	New Mexico	\$1,666
32	Utah	\$1,664
33	<b>NORTH DAKOTA</b>	<b>\$1,604</b>
34	Oregon	\$1,595
35	Florida	\$1,578
36	Arizona	\$1,554
37	Louisiana	\$1,549
38	Wyoming	\$1,549
39	Georgia	\$1,544
40	South Carolina	\$1,532
41	Oklahoma	\$1,526
42	New Hampshire	\$1,521
43	Missouri	\$1,513
44	Tennessee	\$1,508
45	Montana	\$1,499
46	Colorado	\$1,450
47	Alabama	\$1,403
48	South Dakota	\$1,318
49	Texas	\$1,248
50	Alaska	\$739
	US Average	\$1,866

SOURCE: US Department of Commerce, Census Bureau.

SOURCE: US Department of Commerce, Census Bureau.

## Tax Freedom Day 2004, by State

Average number of days spent working to pay:

<u>State</u>	<u>Tax Freedom Day</u>	<u>Rank</u>	<u>Total Taxes</u>	<u>Federal Taxes</u>	<u>State/ Local Taxes</u>
Connecticut	April 28	1	118	80	38
New York	April 27	2	117	71	46
New Jersey	April 19	3	109	73	36
Massachusetts	April 18	4	108	74	34
Rhode Island	April 16	5	106	66	40
Maine	April 15	6	105	61	44
Washington	April 15	7	105	69	36
Wyoming	April 14	8	104	72	32
Nevada	April 13	9	103	68	35
California	April 13	10	103	68	35
Wisconsin	April 13	11	103	63	40
Minnesota	April 12	12	102	64	38
Illinois	April 11	13	101	66	35
Colorado	April 11	14	101	68	33
Maryland	April 11	15	101	65	36
Vermont	April 10	16	100	63	37
Ohio	April 10	17	100	59	41
New Mexico	April 10	18	100	65	35
Virginia	April 10	19	100	66	34
Michigan	April 10	20	100	63	37
Georgia	April 9	21	99	63	36
Arizona	April 9	22	99	63	36
Hawaii	April 8	23	98	57	41
Utah	April 8	24	98	59	39
Florida	April 8	25	98	66	32
Texas	April 7	26	97	66	31
New Hampshire	April 7	27	97	70	27
Indiana	April 7	28	97	61	36
Pennsylvania	April 7	29	96	62	34
Kansas	April 7	30	96	60	36
Oregon	April 6	31	96	62	34
North Carolina	April 6	32	96	61	35
Delaware	April 5	33	95	66	29
Nebraska	April 5	34	95	58	37
Idaho	April 5	35	95	58	37
Kentucky	April 5	36	95	59	36
Montana	April 4	37	94	59	35
West Virginia	April 4	38	94	56	38
Arkansas	April 4	39	94	59	35
Missouri	April 4	40	94	61	33
Iowa	April 3	41	93	58	35
<b>NORTH DAKOTA</b>	<b>April 3</b>	<b>42</b>	<b>93</b>	<b>58</b>	<b>35</b>
South Dakota	April 2	43	92	60	32
Louisiana	April 2	44	92	56	36
Mississippi	April 2	45	92	56	36
Oklahoma	April 2	46	92	59	33
South Carolina	April 1	47	91	59	32
Tennessee	April 1	48	91	61	30
Alabama	April 1	49	91	58	33
Alaska	March 26	50	85	62	23
District of Columbia	April 27	--	117	71	46

SOURCE: Tax Foundation

# INDIVIDUAL INCOME TAXES

## CURRENT LAW

### Individual Income Tax

#### Filing Requirements

Every resident of North Dakota who has a federal income tax filing requirement is required to file a North Dakota income tax return.

A nonresident who has a federal income tax filing requirement and derives income from North Dakota (except income from interest, dividends, pensions and annuities) is required to file a North Dakota income tax return. There are exceptions for certain Native Americans, interstate transportation employees, and Minnesota and Montana residents.

An individual income tax return is due April 15.

#### Choice of Methods

Two filing methods are available to all individuals:

- Main method (on Form ND-1)
- Optional method (on Form ND-2)

The same filing status (for example, single, married filing jointly, head of household) used for federal purposes must be used when filing for state purposes. However, where one spouse is a full-year legal resident of North Dakota and the other spouse is not, separate state returns must be filed, even though a joint federal return is filed. Whenever married individuals must file separate state returns, each spouse has the option of using either the main method or the optional method.

#### Main Method (Form ND-1)

Approximately 97% of all individuals who file a North Dakota income tax return use the main method, Form ND-1. The main method usually yields a lower tax liability than the optional method [See Optional Method (Form ND-2) later.]

**Taxable Income.** Under the main method, North Dakota taxable income for most individuals will equal federal taxable income. For some individuals, North Dakota taxable income must be calculated by adjusting federal taxable income by:

- Adding a lump-sum distribution from a qualified pension plan reported on Form 4972.
- Adding a loss from a pass-through entity that is subject to North Dakota's financial institution tax.
- Subtracting 30% of a net long-term capital gain.
- Subtracting interest income from U.S. obligations.
- Subtracting exempt income of a Native American.
- Subtracting benefits from the U.S. Railroad Retirement Board.
- Subtracting income from a pass-through entity subject to North Dakota's financial institution tax.
- Subtracting income exempted under the Renaissance Zone Act.
- Subtracting income exempted under the new or expanding industry exemption.
- Subtracting the pay received by a National Guard/ Reserve member for service in U.S. armed forces.
- Subtracting the pay received by a nonresident for service in the U.S. armed forces.

**Tax Rates.** Under the main method, the applicable tax rates depend on the taxpayer's filing status (for example, single, married filing jointly, head of household). The tax rates applicable to each filing status for the 2004 tax year are as follows:

#### Single

ND taxable income		Tax rate
First	\$ 29,050 .....	2.1%
Next	\$ 41,300 .....	3.92%
Next	\$ 76,400 .....	4.34%
Next	\$ 172,350 .....	5.04%
Over	\$ 319,100 .....	5.54%

#### Married filing jointly or qualifying widow(er)

ND taxable income		Tax rate
First	\$ 48,500 .....	2.1%
Next	\$ 68,750 .....	3.92%
Next	\$ 61,400 .....	4.34%
Next	\$ 140,450 .....	5.04%
Over	\$ 319,100 .....	5.54%

**Married filing separately**

ND taxable income	Tax rate
First \$ 24,250 .....	2.1%
Next \$ 34,375 .....	3.92%
Next \$ 30,700 .....	4.34%
Next \$ 70,225 .....	5.04%
Over \$ 159,550 .....	5.54%

**Head of household**

ND taxable income	Tax rate
First \$ 38,900 .....	2.1%
Next \$ 61,600 .....	3.92%
Next \$ 62,200 .....	4.34%
Next \$ 156,400 .....	5.04%
Over \$ 319,100 .....	5.54%

The income brackets are indexed for inflation each year. A 3-year income averaging method is available for calculating the tax on farm income if the taxpayer elects to use the federal 3-year income averaging method.

**Nonresident Tax Calculation.** Under the main method, residents and nonresidents calculate North Dakota taxable income the same way. For a nonresident, however, the tax calculated on North Dakota taxable income (which includes income from all sources) is multiplied by a ratio equal to North Dakota source income divided by federal adjusted gross income (reduced by interest from U.S. obligations).

**Credits.** Tax credits are available under the main method for:

- Paying income tax to another state (North Dakota resident only).
- Paying qualified expenses to care for a qualified family member to avoid placement in a long-term care facility.
- Investing in a North Dakota renaissance fund organization.
- Preserving or renovating historic property in a North Dakota renaissance zone.
- Purchasing or rehabilitating a single-family residence in a North Dakota renaissance zone.
- Investing in a qualified seed capital business in North Dakota.
- Investing in a qualified agricultural commodity processing facility in North Dakota.
- Having an unused federal credit for prior year minimum tax attributable to tax years before 2001 in which Form 37-S was used and there was a federal alternative minimum tax. (Not applicable after 2004.)

**Optional Contributions.** A taxpayer may make a contribution to the Watchable Wildlife Fund, the Trees For North Dakota Program Trust Fund, or both. A contribution will increase a balance due or reduce an overpayment on the return.

**Optional Method (Form ND-2)**

Only about 3% of all individuals who file a North Dakota income tax return use the optional method, Form ND-2. This method generally yields a higher tax than the main method. There are a number of special deductions and credits allowed only under the optional method that may benefit the taxpayer. In most cases, these are not enough to offset the higher tax rates that apply under this method.

**Taxable Income.** Under the optional method, North Dakota taxable income is calculated by adjusting federal taxable income by:

- Adding interest income earned on state and local government obligations (except North Dakota).
- Adding state and local income taxes deducted on the federal return.
- Adding a lump sum distribution from a qualified pension plan reported on Form 4972.
- Adding a loss from a pass-through entity subject to North Dakota's financial institution tax.
- Subtracting state and local income tax refunds included in income on the federal return.
- Subtracting federal income taxes paid.
- Subtracting \$300 if the filing status is married filing jointly, head of household, or surviving spouse.
- Subtracting \$1,750 for an adopted child under the age of 21 in the year the adoption becomes final.
- Subtracting up to \$1,000 of the costs of adopting a child under the age of 21 who is mentally retarded or is blind or disabled as determined under the Social Security Act in the year the adoption becomes final.
- Subtracting \$750 for an adopted child under the age of 21 who is mentally retarded or is blind or disabled as determined under the Social Security Act.
- Subtracting medical expenses not allowed on the federal return due to the 7.5% limitation.
- Subtracting benefits from the U.S. Railroad Retirement Board.
- Subtracting up to \$5,000 of military retirement benefits; federal retirement benefits; and North Dakota firefighter, police and highway patrol retirement benefits.
- Subtracting interest from U.S. obligations.



- Subtracting up to \$300 of interest (\$600 if joint return) from North Dakota financial institutions.
- Subtracting the gain on the sale or exchange of stock of an eligible corporation that relocates significant operations to North Dakota and generates new wealth in the state.
- Subtracting up to \$5,000 (\$10,000 if joint return) of an investment in a North Dakota venture capital corporation.
- Subtracting income from a new or expanding business engaged in primary sector tourism or business.
- Subtracting income from the sale or lease of a business under the Beginning Entrepreneur Program.
- Subtracting income from the sale or lease of farm land under the Beginning Farmer Program.
- Subtracting exempt income of a Native American.
- Subtracting a gain recognized on property subject to eminent domain sale or transfer.
- Subtracting income from a pass-through entity that is subject to North Dakota's financial institution tax.
- Subtracting income exempted under the Renaissance Zone Act.
- Subtracting up to \$1,000 of pay received for service in the U.S. armed forces.
- Subtracting up to \$300 per month of pay received for overseas service in the U.S. armed forces.
- Subtracting the pay received by a National Guard/ Reserve member for service in U.S. armed forces.
- Subtracting the pay received by a nonresident for service in the U.S. armed forces.

**Tax Rates.** On the optional method form, the following tax rates apply regardless of the taxpayer's filing status (for example, single, married filing jointly, head of household).

ND taxable income	Tax rate
First \$ 3,000.....	2.67%
Next \$ 2,000.....	4.00%
Next \$ 3,000.....	5.33%
Next \$ 7,000.....	6.67%
Next \$ 10,000.....	8.00%
Next \$ 10,000.....	9.33%
Next \$ 15,000.....	10.67%
Over \$ 50,000.....	12.00%

**Nonresident Tax Calculation.** Under the optional method, a nonresident calculates North Dakota taxable income by including only the items of income and loss sourced in North Dakota. The personal and dependency exemptions, and the standard deduction or itemized deductions, claimed for federal tax purposes are multiplied by a ratio equal to North Dakota source income divided by federal adjusted gross income.

**Credits.** Tax credits are available under the optional method for:

- Paying income tax to another state (North Dakota resident only).
- Paying qualified expenses to care for a qualified family member to avoid placement in a long-term care facility.
- Investing in a North Dakota renaissance fund organization.
- Preserving or renovating historic property in a North Dakota renaissance zone.
- Purchasing or rehabilitating a single-family residence in a North Dakota renaissance zone.
- Investing in a qualified seed capital business in North Dakota.
- Investing in a qualified agricultural commodity processing facility in North Dakota.
- Contributing to a qualifying nonprofit private high school or college in North Dakota.
- Paying premiums for a long-term care insurance policy.
- Installing a geothermal, solar, or wind energy device on property owned or leased in North Dakota.
- Investing in a North Dakota venture capital corporation.
- Investing in the North Dakota Small Business Investment Company.
- Investing in a certified nonprofit development corporation.
- Paying wages to a developmentally disabled or chronically mentally ill employee.

**Optional Contributions.** A taxpayer may make a contribution to the Watchable Wildlife Fund, the Trees for North Dakota Program Trust Fund, or both. A contribution will increase a balance due or reduce an overpayment on the return.

## **Payment of Estimated Tax**

Individuals are required to pay estimated North Dakota income tax if all of the following conditions apply:

1. The individual is required to pay estimated federal income tax; AND
2. The individual's previous year's net tax liability was \$500 or greater; AND
3. The individual expects to owe, after subtracting withholding, at least \$500; AND
4. The individual expects withholding to be less than the smaller of:
  - a. 90% of current year's net tax liability or
  - b. 100% of previous year's net tax liability. (This does not apply if the individual moves into North Dakota during the previous year.)

## Withholding

An employer is required to withhold North Dakota income tax from the wages of an employee if federal income tax is required to be withheld from such wages. Wages paid by farmers and ranchers are exempt from North Dakota withholding requirements.

North Dakota withholding is computed using one of three methods allowed employers:

- **Method 1: Percentage of Wages (Primary Method)**

This method is similar to the IRS's Percentage Method in Publication 15 (Circular E). It is the method recommended for use in all cases.

- **Method 2: Percent of Federal Withholding (Alternative Method)**

This method is an alternative to Method 1, the Primary Method. The federal income tax withheld from the wages is multiplied by a flat rate determined by the Office of State Tax Commissioner. This method generally works for employees with wages under \$18,000, if single, or \$30,000, if married. Use of this method for employees with wages over the \$18,000 or \$30,000 level is permitted, but it will result in overwithholding.

- **Method 3: Withholding Tables**

This method is identical to Method 1, the primary method, except that no calculations are required. Instead, a table is used to look up the withholding amount.

Employers must register with the North Dakota Office of State Tax Commissioner. Forms to register for income tax withholding, sales and use tax permit, unemployment insurance and workers compensation are part of a consolidated registration package.

**New Jobs Training Program.** Under the New Jobs Training Program, a new or expanding primary sector business may use income tax withheld from new employees to pay for the cost of training the employees. Application for the program is made through Job Service North Dakota.

### **Fiduciary Income Tax (Estates and Trusts)**

A fiduciary for a resident trust or estate, or a fiduciary for a nonresident trust or estate which derives income from North Dakota sources, must file a North Dakota fiduciary income tax return if required to file a federal fiduciary income tax return.

Two filing methods are available on the fiduciary income tax return: the Main Method and the Optional Method, which are the same as the two methods and corresponding tax rates allowed for individual income tax. The requirement for an estate or trust to pay estimated North Dakota income tax also follows the same rules applying to individuals. A beneficiary of an estate or trust required to file a fiduciary income tax return may be required to file a North Dakota income tax return to report the income distributed or distributable to the beneficiary.

A fiduciary income tax return is due April 15.

## Distribution of Revenue

All revenue from the individual income tax is deposited in the State General Fund.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**Before 1977.** The state's first income tax law was imposed in 1919. In 1923, it was revised and patterned after federal income tax law. Between 1923 and 1977, numerous changes were made to the law.

**1977 Session.** A tax credit for the installation of a solar or wind energy device was created.

**1978 Initiated Measure.** Voters in the 1978 General Election passed a measure decreasing individual income tax rates.

**1979 Session.** The beginning farmer program deductions, a deduction for gains from property subject to eminent domain, and a credit for contributions to nonprofit private high schools were created. The 1% business privilege tax was repealed for tax years after 1980.

**1980 Initiated Measure.** In the 1980 General Election, voters approved the oil extraction tax initiated measure that included an energy cost relief credit of up to \$100.

**1981 Session.** The simplified optional short form system was created for individuals, on which the tax was determined by multiplying the federal income tax liability by a flat tax rate of 7½%. For long form filers, the beginning businessman program deductions, a deduction for interest from a North Dakota financial institution, and a tax credit for installing a geothermal energy device were created.

**1983 Session.** The energy cost relief credit was repealed. The tax rate on the simplified optional short form was increased to 10½%. The tax rates on the long form were increased, ranging from 2% on the first \$3,000 of taxable income to 9% on taxable income over \$50,000.

**1985 Session.** For long form filers, a tax credit for investing in a venture capital corporation and a deduction for an adopted child under the age of 21 were created.

**1986 Special Session.** General income tax withholding and estimated income tax laws were created. The simplified optional short form tax rate was increased to 14%. The tax rates on the long form were proportionally increased, ranging from 2.67% on the first \$3,000 of taxable income to 12% on taxable income over \$50,000.

**1987 Referred Measure.** State voters upheld the 1986 Special Session changes increasing the tax rates and creating the general withholding and estimated tax laws.

**1987 Session.** A 10% surtax on state income tax liability was created for tax year 1987 only. Beginning with tax year 1988, the tax return had to include a line for an optional contribution to the nongame wildlife fund. For long form filers, tax credits were added for investment in the Myron G. Nelson Fund, Inc., and for wages paid to a developmentally disabled or chronically mentally ill employee.

**1989 Session.** On the long form, deductions were created for federal retirement benefits not previously eligible, for highway patrol retirement benefits, and for investment in a venture capital corporation or the Myron G. Nelson Fund, Inc. A credit was created on the long form for an investment in a nonprofit development corporation, and starting with the 1989 tax year, the tax return had to include a line for an optional contribution to the centennial tree program trust fund. Taxpayers must use the same filing status and the same standard or itemized deductions used for federal purposes. North Dakota income tax law was perpetually federalized for tax years beginning after December 31, 1988. The short form tax rate increased to 17%. The long form tax rates were increased proportionately, ranging from 3.24% on the first \$3,000 of taxable income to 14.57% on taxable income over \$50,000.

**1989 Referral Election.** Tax rate increases passed by the 1989 Legislature were rejected in a December Special Election.

**1991 Session.** A deduction was created for distributions from mutual funds that hold U.S. government securities. Wages paid by farmers and ranchers were exempted from withholding requirements. The legislature approved the North Dakota Taxpayer Bill of Rights. The income tax exemption for new or expanding businesses was decoupled from the property tax exemption and was limited to value-adding primary sector and tourism businesses.

**1993 Session.** Credits were added to the long form for “seed capital investment” in a new or expanding business, for long term care insurance premiums, and for alternative fuel equipment installed on motor vehicles. The New Jobs Training Program was created to allow new or expanding businesses to use income tax withheld from new employees to pay for the employees’ training. Also, a limited liability company form of business entity was legalized.

**1994 Special Session.** The project size limitations were removed as qualifications for the new or expanding business tax exemption.

**1995 Session.** A deduction was added to the long form for part of the gain on sale or exchange of stock of a corporation that relocates significant operations to North Dakota. The number of new jobs a business must create to qualify for the New Jobs Training Program was decreased. The Myron G. Nelson Fund, Inc. was changed to the Small Business Investment Company, a state established limited partnership. A nonresident’s income from gambling in North Dakota was specifically defined as taxable income.

**1997 Session.** A tax credit for qualified expenses for the care of a qualifying family member was created on the long form. An individual who files a claim for unemployment compensation benefits may elect to have federal and state income tax withheld from the benefits.

**1999 Session.** The interest rate on refunds was increased from 10% per year to 1% per month.

**2001 Session.** The simplified short form method (on which the tax was calculated as a percentage of the federal tax liability) was repealed. It was replaced with a method that uses federal taxable income as the starting point in calculating North Dakota taxable income, to which is applied a set of five tax rates—2.1%, 3.92%, 4.34%, 5.04%, and 5.54%. Each rate corresponds to one of five income brackets, each of which varies by filing status (for example, single, married filing jointly). The estimated income tax requirements for individuals, estates, and trusts were changed to provide that no estimated tax

has to be paid if the preceding tax year's net tax liability is less than \$500. The threshold for filing an annual withholding return by an employer was increased to \$500. An income tax credit was created for investing in a North Dakota agricultural commodity processing facility. The partnership provisions were changed to provide that the portion of guaranteed payments constituting a salary paid to a nonresident partner of a professional service partnership for work performed outside North Dakota is not taxable. Changes were made to the Renaissance Zone Act provisions, including the addition of rehabilitation work as a qualifying transaction for tax incentives. On the long form, the deduction for adopting a child under age 21 was increased to \$1,750 with a 5-year carryforward of an unused amount, and the geothermal, solar, and wind energy device credit was allowed for a device installed on property leased by the taxpayer.

**2003 Session.** The seed capital investment tax credit rate was increased to 45%, and thresholds on eligible investments and credits were increased. A payroll service provider who electronically transmits an employer's withholding return and taxes for federal purposes must electronically transmit the state withholding returns and taxes. The legislature required the Tax Commissioner to conduct a tax amnesty program. The new or expanding business income exemption was allowed on Form ND-1. On Form ND-2, the dividend deduction was repealed. A deduction was created for compensation that a National Guard or Reserve member receives for federal active duty service.

## Individual Income Tax Collections

<u>Fiscal Year</u>	<u>Net Collections</u>
1994	137,879,059
1995	141,923,858
1996	152,087,864
1997	163,732,247
1998	177,904,251
1999	181,389,034
2000	198,287,830
2001	213,442,150
2002	198,922,525
2003	200,528,205
2004	214,145,899
2005 est.	223,758,000

SOURCE: North Dakota Office of State Tax Commissioner

# Per Capita Comparison of Individual Income Tax Collections \*

## Fiscal Year 2003

State	Rank	Per Capita
Massachusetts	1	\$1,248
New York	2	\$1,180
Oregon	3	1,130
Minnesota	4	\$1,062
Connecticut	5	\$1,045
Wisconsin	6	\$960
California	7	\$922
Virginia	8	\$917
Delaware	9	\$871
Maryland	10	\$850
North Carolina	11	\$843
Hawaii	12	\$825
Maine	13	\$823
New Jersey	14	\$780
Rhode Island	15	\$767
Georgia	16	\$722
Colorado	17	\$711
Ohio	18	\$692
Kentucky	19	\$684
Utah	20	\$668
Vermont	21	\$665
Kansas	22	\$652
Michigan	23	\$647
Nebraska	24	\$646
Idaho	25	\$618
Missouri	26	\$617
Iowa	27	\$608
Oklahoma	28	\$602
Indiana	29	\$588
Montana	30	\$584
West Virginia	31	\$583
Illinois	32	\$580
South Carolina	33	\$563
Arkansas	34	\$561
Pennsylvania	35	\$539
New Mexico	36	\$492
Alabama	37	\$452
Louisiana	38	\$415
Arizona	39	\$377
Mississippi	40	\$354
<b>NORTH DAKOTA</b>	41	\$315
New Hampshire	42	\$43
Tennessee	43	\$20

\* Seven states levy no individual income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming.

SOURCE: U.S. Department of Commerce, Bureau of the Census.

# Comparison of State Individual Income Taxes

## As of January 1, 2004

	Federal Deductibility	Marginal Rates and Tax Brackets for Single Filers	Standard Deduction		Personal Exemptions		Starting Point <sup>(1)</sup>
			Single	Joint	Single (b)	Dependents	
Alabama	Yes (z)	2% > \$0; 4% > \$500; 5% > \$3K	\$ 2,000	\$ 4,000	\$ 1,500	\$ 300	State
Alaska	No	None	n.a.	n.a.	n.a.	n.a.	n.a.
Arizona	No	2.87% > \$0; 3.20% > \$10K; 3.74% > \$25K; 4.72% > \$50K; 5.04% > \$150K	<b>4,050</b>	<b>8,100</b>	2,100	2,300	FAGI
Arkansas	No	1% > \$0; 2.5% > \$3,299; 3.5% > \$6,699; 4.5% > \$9,999; 6% > \$16,699; 7% > \$27,899 (l)(w)	2,000	4,000	20 (c)	20 (c)	State
California	No	1% > \$0; 2% > \$5,962; 4% > \$14,133; 6% > \$22,306; 8% > \$30,965; 9.3% > \$39,133 (w)	3,070 (w)	6,140 (w)	80 (c)(w)	251 (c)(w)	FAGI
Colorado	No	4.63% of federal taxable income.	n.a.	n.a.	n.a.	n.a.	FTI
Connecticut	No	<b>3.0 &gt; \$0; 5.0% &gt; \$10K</b>	n.a.	n.a.	\$ 12,500 (e)	\$ 0	FAGI
Delaware	No	2.2% > \$2K; 3.9% > \$5K; 4.8% > \$10K; 5.2% > \$20K; 5.55% > \$25K; 5.95% > \$60K	\$ 3,250	\$ 6,500	110 (c)	110 (c)	FAGI
Florida	No	None	n.a.	n.a.	n.a.	n.a.	n.a.
Georgia	No	1% > \$0; 2% > \$750; 3% > \$2,250; 4% > \$3,750; 5% > \$5,250; 6% > \$7K	2,300	3,000	2,700	2,700	FAGI
Hawaii	No	1.4% > \$0; 3.2% > \$2K; 5.5% > \$4K; 6.4% > \$8K; 6.8% > \$12K; 7.2% > \$16K; 7.6% > \$20K; 7.9% > \$30K; 8.25% > \$40K	\$ 1,500	\$ 1,900	\$ 1,040	\$ 1,040	FTI
Idaho (g)	No	1.6% > \$0; 3.6% > \$1,086; 4.1% > \$2,172; 5.1% > \$3,259; 6.1% > \$4,345; 7.1% > \$5,432; 7.4% > \$8,148; 7.8% > \$21,730	<b>4,750</b>	<b>9,500</b>	3,050	3,050	FTI
Illinois	No	3% of federal adjusted gross income with modification.	n.a.	n.a.	2,000	2,000	FAGI
Indiana	No	3.4% of federal adjusted gross income with modification.	n.a.	n.a.	1,000	1,000	FAGI
Iowa	Yes	0.36% > \$0; 0.72% > \$1,242; 2.43% > \$2,484; 4.5% > \$4,968 6.12% > \$11,178; 6.48% > \$18,630; 6.8% > \$24,840; 7.92% > \$37,260; 8.98% > \$55,890	1,550 (w)	3,830 (w)	40 (c)	40 (c)	FAGI
Kansas	No	3.5% > \$0; 6.25% > \$15K; 6.45% > \$30K	\$ 3,000	\$ 6,000	\$ 2,250	\$ 2,250	FAGI
Kentucky	No	2% > \$0; 3% > \$3K; 4% > \$4K; 5% > \$5K; 6% > \$8K	<b>1,830</b>	<b>1,830</b>	20 (c)	20 (c)	FAGI
Louisiana	Yes	2% > \$0; 4% > \$10K; 6% > \$50K	n.a.	n.a.	4,500 (m)	1,000	FAGI
Maine	No	2% > \$0; 4.5% > \$4,250; 7% > \$8,450; 8.5% > \$16,950	4,750	7,950	2,850 (w)	2,850 (w)	FAGI
Maryland	No	2% > \$0; 3% > \$1K; 4% > \$2K; 4.75% > \$3K	2,000 (n)	4,000 (n)	<b>2,400</b>	<b>2,400</b>	FAGI
Massachusetts	No	5.3% or 12% (f)	n.a.	n.a.	<b>\$ 3,300</b>	\$ 1,000	FAGI
Michigan	No	4.0% of federal adjusted gross income with modification.	n.a.	n.a.	3,100	3,000	FAGI
Minnesota	No	5.35% > \$0; 7.05% > \$19,010; 7.85% > \$62,440	\$ 4,750 (y)	\$ 9,500 (y)	3,000 (y)	3,000 (y)	FTI
Mississippi	No	3% > \$0; 4% > \$5K; 5% > \$10K	2,300	4,600	6,000	1,500	State
Missouri	Yes (aa)(z)	1.5% > \$0; 2% > \$1K; 2.5% > \$2K; 3% > \$3K; 3.5% > \$4K; 4% > \$5K; 4.5% > \$6K; 5% > \$7K; 5.5% > \$8K; 6% > \$9K	<b>4,750 (y)</b>	<b>9,500 (y)</b>	2,100	1,200	FAGI
Montana	Yes (p)	2% > \$0; 3% > \$2,200; 4% > \$4,400; 5% > \$8,900; 6% > \$13,300; 7% > \$17,800; 8% > \$22,200; 9% > \$31,100; 10% > \$44,500; 11% > \$77,800	\$ 3,330 (p)(w)	\$ 6,660 (p)(w)	\$ 1,780 (w)	\$ 1,780 (w)	FAGI
Nebraska	No	<b>2.56% &gt; \$0; 3.57% &gt; \$2,400; 5.12% &gt; \$17K; 6.84% &gt; \$26,500</b>	4,750 (y)	7,950 (y)	99 (c)(q)	99 (c)(q)	FAGI
Nevada	No	None	n.a.	n.a.	n.a.	n.a.	n.a.
New Hampshire	No	5% > \$0 (h)	n.a.	n.a.	2,400	n.a.	State
New Jersey	No	1.4% > \$0; 1.75% > \$20K; 3.5% > \$35K; 5.525% > \$40K; 6.37% > \$75K	n.a.	n.a.	1,000	1,500	State
New Mexico	No	1.7% > \$0; 3.2% > \$5,500; 4.7% > \$11K; 6% > \$16K; 7.1% > \$26K; 7.7% > \$42K;	\$ 4,750 (y)	\$ 9,500 (y)	\$ 3,050 (y)	\$ 3,050 (y)	FAGI
New York	No	4% > \$0; 4.5% > \$8K; 5.25% > \$11K; 5.9% > \$13K; 6.85% > \$20K	7,500	<b>14,600</b>	n.a.	1,000	FAGI
North Carolina	No	6% > \$0; 7% > \$12,750; 7.75% > \$60K; 8.25% > \$120K	<b>3,750</b>	<b>6,100</b>	<b>1,050 (r)</b>	<b>1,050 (r)</b>	FTI
NORTH DAKOTA	No	2.1% > \$0; 3.92% > \$28,400; 4.34% > \$68,800; 5.04% > \$143,500; 5.54% > \$311,950	4,750 (y)	7,950 (y)	3,050 (y)	3,050 (y)	FTI
Ohio	No	0.743% > \$0; 1.486% > \$5K; 2.972% > \$10K; 3.715% > \$15K; 4.457% > \$20K; 5.201% > \$40K; 5.943% > \$80K; 6.9% > \$100K; 7.5% > \$200K (u)	n.a.	n.a.	1,250 (g)	1,250 (g)	FAGI

Continued



			<u>Standard Deduction</u>		<u>Personal Exemptions</u>		<u>Starting Point<sup>(1)</sup></u>
<u>Federal Deductibility</u>	<u>Marginal Rates and Tax Brackets for Single Filers</u>		<u>Single</u>	<u>Joint</u>	<u>Single (b)</u>	<u>Dependents</u>	
Oklahoma	Yes (d)	0.5% > \$0; 1% > \$1K; 2% > \$2,500; 3% > \$3,750; 4% > \$4,900; 5% > \$6,200; 6% > \$7,700; 7% > \$10K	\$ 2,000 (s)	\$ 2,000 (s)	\$ 1,000	\$ 1,000	FAGI
Oregon	Yes	5% > \$0; 7% > \$2,500; 9% > \$6,300	1,670	3,345	142 (c)(w)	142 (c)(w)	FTI
Pennsylvania	No	2.8% > \$0 (ab)	n.a.	n.a.	n.a.	n.a.	State
Rhode Island	No	25% of federal income tax liability	4,750	7,950	3,050	3,050	FAGI
South Carolina	No	2.5% > \$0; 3% > \$2,400; 4% > \$4,800; 5% > \$7,200; 6% > \$9,600; 7% > \$12,000	4,750 (y)	7,950 (y)	3,050 (y)	3,050 (y)	FTI
South Dakota	No	None	n.a.	n.a.	n.a.	n.a.	n.a.
Tennessee	No	6% > \$0 (h)	n.a.	n.a.	\$ 1,250	n.a.	State
Texas	No	None	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Utah</b>	Yes	2.3% > \$0; 3.3% > \$863; 4.2% > \$1,726; 5.2% > \$2,588; 6% > \$3,450; 7% > \$4,313	<b>\$ 4,750</b>	<b>\$ 9,500</b>	\$ 2,288 (v)	2,288 (v)	FTI
Vermont	No	3.6% > \$0; 7.2% > \$28,400; 8.5% > \$68,800 9% > \$143,500; 9.5% > \$311,950	n.a.	n.a.	3,000	n.a.	FTI
Virginia	No	2% > \$0; 3% > \$3K; 5% > \$5K; 5.75% > \$17K	\$ 3,000	\$ 5,000	\$ 800	\$ 800	FAGI
Washington	No	None	n.a.	n.a.	n.a.	n.a.	n.a.
West Virginia	No	3% > \$0; 4% > \$10K; 4.5% > \$25K; 6% > \$40K; 6.5% > \$60K	n.a.	n.a.	2,000	2,000	FAGI
Wisconsin	No	4.60% > \$0; 6.15% > \$8,280; 6.50% > \$16,560; 6.75% > \$126,420	7,790 (k)	14,030 (k)	700	700	FAGI
Wyoming	No	None	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Dist. of Col.</b>	No	<b>5% &gt; \$0; 7.5% &gt; \$10K; 9.3% &gt; \$30K</b>	<b>\$ 1,000</b>	\$ 2,000	\$ 1,370	\$ 1,370	FAGI
<sup>(1)</sup> Starting Point: Point at which tax computation begins. This starting point, however, may be adjusted up or down, Abbreviations are: FAGI: Federal Adjusted Gross Income FTI: Federal Taxable Income State: State's own unique starting point. SAF: Same as Federal <b>Note:</b> Bold, Italics indicate notable tax changes. (a) Applies to single taxpayers and married people filing separately. Most states double brackets for married filing joint. (b) Except for Delaware and Mississippi, married-joint filers receive double the single exemption. Delaware is a flat \$110 tax credit and Mississippi's is \$9,500 for joint. (c) Tax Credit. (d) Rates listed assume that taxpayers opt not to deduct their federal income tax liability. In Oklahoma, if a filer chooses to deduct his federal liability, then he faces a range of rates from 0.5%-10% on income up to \$1,000 and over \$16,000 respectively. (e) The single personal exemption will increase to \$12,625 as of the beginning of the 2004 tax year. (f) The 12% rate applies to short-term capital gains, long-and short-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes. (g) Taxpayers receive a \$20 tax credit per exemption in addition to the normal exemption amount. (h) Applies to interest and dividend income only. (k) Deduction phases out to zero for single filers at \$41,000 and joint filers at \$76,000. (l) Rates apply to regular tax table. A special tax table is available for low-income taxpayers that reduce their tax payments. (m) Standard deduction and personal exemptions are combined: \$4,500 for single and married filing separately; \$9,000 married filing jointly and head of household. (n) The standard deduction is 15 percent of income with a minimum of \$1,500 and a cap of \$2,000 for single filers, married filing separately filers and dependent filers earning more than \$13,333. The standard deduction is capped at \$4,000 for married filing jointly filers, head of household filers and qualifying widowers earning more than \$26,667. (p) Can claim either the standard deduction or the amount of federal taxes withheld, whichever is greater. (q) The \$99 personal exemption credit is phased out for filers with adjusted gross income of \$70,000 or more. (r) Exemptions are based on federal standard deductions but are adjusted according to income and filing status. (s) The deduction given is applicable to all filers, excluding those married filing separately, with adjusted gross income (AGI) over \$13,333. For those with AGI between \$6,666 and \$13,333 the standard deduction is 15% of AGI and for those with AGI of less than \$6,666 the standard deduction is \$1,000. For married filing separately, the standard deduction is \$500 or 15% of AGI, but not to exceed \$1,000. (u) Under Ohio law, when the state ends its fiscal year with a significant budget surplus, that surplus is refunded to taxpayers through a temporary reduction in the income tax rates. Normal rates range shown. (v) Three-fourths federal exemption. (w) Indexed for Inflation. (x) All filers must pay \$10 for the permanent building fund tax. (y) Deductions and exemptions tied to Federal tax system. Federal deductions and exemptions are indexed for inflation. (z) Residents should deduct the federal income tax liability as shown on the 2003 federal income tax return, less any federal Advance Child Tax Credit for 2003. (aa) If you checked Box A, B, D, E, F, or G on Line 9, your federal tax deduction is limited to \$5,000. If you checked Box C on Line 9, your federal tax deduction is limited to \$10,000. (ab) Tax rate changes from 2.8% to 3.07% in 2004.							

# CORPORATION INCOME TAX

## CURRENT LAW

### Filing Requirements

Every corporation engaged in business in North Dakota or having sources of income in North Dakota must file a North Dakota corporation income tax return. Most returns are due on the 15th day of the fourth month following the close of the tax year. Returns filed by cooperatives are due on the 15th day of the ninth month following the close of the tax year. Returns of tax-exempt organizations reporting unrelated business taxable income are due on the 15th day of the fifth month after the close of the tax year. Payment is made with the return.

A corporation is required to pay estimated tax on a quarterly basis if:

- the estimated tax due exceeds \$5,000, and
- the previous year's total tax liability exceeded \$5,000.

### Starting Point for Calculating Tax

The starting point for calculation of corporation income tax is federal taxable income. North Dakota income tax law is perpetually federalized for this starting point.

### Apportionable Income

A corporation's apportionable income is determined by adjusting the corporation's federal taxable income.

Additions to federal taxable income include:

- All income, franchise or privilege taxes measured by income which were deducted on the federal return.
- North Dakota depreciation adjustments.
- Interest on state and local obligations (excluding North Dakota).
- Special deductions and net operating loss deductions taken on the federal return.
- Federal safe harbor lease adjustments.

Subtractions from federal taxable income include:

- State income tax refunds.
- Interest from U.S. obligations.
- North Dakota depreciation adjustments.

- Nonbusiness income from sources outside North Dakota.
- Federal safe harbor lease adjustments.

### North Dakota Taxable Income

North Dakota taxable income is that portion of a corporation's apportionable income which is derived from, or attributable to, sources within North Dakota.

A corporation whose business activity is conducted solely within North Dakota is a nonapportioning corporation. North Dakota taxable income is the entire apportionable income reduced by any net operating loss carryforward attributable to North Dakota sources.

Parent and subsidiary corporations, which operate totally within North Dakota and file a federal consolidated tax return, must file a state consolidated corporation income tax return using the combined report method.

A corporation whose activity is conducted both within and without North Dakota is an apportioning corporation. North Dakota taxable income is computed by multiplying the apportionable income by an apportionment factor. This amount is reduced by any net operating loss carryforward attributable to North Dakota sources, by any applicable income exemptions and by any recapture of previously disallowed federal alternative minimum tax. The apportionment formula includes property, payroll and sales factors, and is calculated as follows:

$$\left( \frac{\text{ND Property}}{\text{Total Property}} + \frac{\text{ND Payroll}}{\text{Total Payroll}} + \frac{\text{ND Sales}}{\text{Total Sales}} \right) \div 3$$

### Unitary Report and Water's Edge Election.

A unitary combined report is required when two or more corporations are conducting a unitary business. A unitary business is one in which the activities of two or more affiliated corporations depend upon, contribute to, or are integrated with each other. The combined report includes the total apportionable income of all members of the unitary group. To be included in a combined report, an affiliated corporation must have more than 50% of its voting stock owned directly or indirectly by a common parent, which is also a member of the group.

North Dakota applies the unitary concept on a worldwide basis. In other words, total apportionable income includes income of all affiliated companies of the unitary group, whether those companies are incorporated within or outside the United States. A corporation may elect to apportion its income using the water's edge approach. Under such an election, the corporation must comply with the following:

- 1. The election must be made on the return as originally filed.
- 2. Federal taxes may not be deducted.
- 3. The water's edge election is binding for five consecutive years.
- 4. A domestic disclosure spreadsheet must be filed in the election year and every third year thereafter provided that property, payroll or sales in foreign countries exceed \$10 million and total assets exceed \$250 million.
- 5. The water's edge report must include the income and apportionment factors of the water's edge group, 30% of foreign dividends, and 30% of net book income from 80/20 corporations. An 80/20 corporation refers to an affiliated corporation incorporated in the U.S., but having less than 20% of its property and payroll assigned to U.S. locations.

**Rate Table**

Effective for tax years beginning after December 31, 2003, North Dakota corporation income tax is determined by applying the following rates to North Dakota income:

TAXABLE INCOME:

Up to \$3,000 .....	2.6%
\$ 3,000 to \$ 8,000.....	4.1%
\$ 8,000 to \$ 20,000.....	5.6%
\$ 20,000 to \$ 30,000.....	6.4%
Over \$30,000 .....	7.0%

Corporations electing the water's edge filing method are subject to an additional 3.5% surtax on North Dakota taxable income.

**Tax Credits**

North Dakota allows corporation income tax credits for:

- Wages and salaries, if the corporation is a new industry. The credit is 1% of all wages and salaries for the first three years and ½% of all wages and salaries for the fourth and fifth years. A corporation which receives a new or expanding business income tax exemption

- does not qualify for this credit (see New Business Exemptions below).
- Investment in a North Dakota venture capital corporation. The credit is limited to 25% of the amount invested, or \$250,000, whichever is less.
  - Investment in the Small Business Investment Company, a limited partnership established by the State of North Dakota. The credit is limited to 25% of the investment.
  - Investment in a certified nonprofit development corporation. The credit is limited to 25% of the amount invested.
  - Research and experimental expenditures incurred within North Dakota.
  - Contributions to nonprofit private high schools and nonprofit private colleges in the state.
  - Installation of geothermal, solar or wind energy devices.
  - A portion of North Dakota wages paid to a developmentally disabled or chronically mentally ill employee.
  - Qualified investment in a North Dakota renaissance fund organization.
  - Investment in historic property preservation or renovation in a renaissance zone.
  - Direct costs incurred to retrofit an existing facility or adapt a new facility to produce or blend biodiesel fuel. The cumulative credit is limited to \$250,000.

**New Business Exemptions**

**Qualifications.** A new or expansion project in a primary sector or tourism business may qualify for an income tax exemption for up to five years. "Primary sector" refers to a business that adds value to a product, process or service that produces wealth in North Dakota. "Tourism" refers to a tourism-related business that is a destination attraction. The exemption is limited to income earned from the qualifying project. The project operator is required to file a state income tax return even though an exemption is granted.

- Limitations.** A business is not eligible for an exemption if:
- The business received a property tax exemption under tax increment financing;
  - There is an outstanding recorded lien for delinquent property, income, sales or use taxes against the project operator or principle officers; or
  - The exemption fosters unfair competition or endangers existing business.

**Application Procedures.** The business must apply to the State Board of Equalization, c/o the Office of State Tax Commissioner.

- The application must be filed during the first year of project operations.
- The application is reviewed by the Department of Commerce, Division of Economic Development and Finance.
- The business must provide notice to competitors as prescribed by the State Board.
- The State Board considers the application and any testimony at a public meeting and then grants or denies the exemption and certifies the results to the State Tax Commissioner.

## Renaissance Zone Exemptions

North Dakota allows these exemptions under the Renaissance Zone Act:

- A five-year business income exemption for purchasing, leasing, or making improvement to real property used in an existing business.
- A five-year investment income exemption for purchasing residential or commercial real property solely for investment purposes.

## Distribution of Revenue

All revenue from the corporation income tax is deposited in the State General Fund.

# HISTORICAL OVERVIEW

## Significant Changes in Law

**1919 Session.** A tax on corporation income was first enacted. Among the deductions allowed was a deduction for taxes paid to federal, state, local or foreign governments.

**1923 Session.** The state's corporation income tax was revised and reenacted with a 3% flat rate.

**1937 Session.** The corporation income tax was changed to a graduated rate structure. For tax years ending December 31, 1936 and after, corporation income tax rates were:

TAXABLE INCOME:	
Up to \$3,000 .....	3.0%
\$ 3,000 to \$ 8,000.....	4.0%
\$ 8,000 to \$ 15,000.....	5.0%
Over \$15,000 .....	6.0%

**1978 Initiated Measure.** The initiated measure added a tax bracket for taxable income over \$25,000. For tax years after December 31, 1977, corporation income tax rates were:

TAXABLE INCOME	
Up to \$3,000 .....	3.0%
\$ 3,000 to \$ 8,000.....	4.0%
\$ 8,000 to \$ 15,000.....	5.0%
\$ 15,000 to \$ 25,000.....	6.0%
Over \$25,000 .....	8.5%

**1979 Session.** A tax credit for contributions to nonprofit private high schools was created. The 1% business privilege tax on business income paid by individuals, estates, trusts, partnerships and corporations was repealed.

**1981 Session.** A tax credit for the installation of a geothermal energy device was created. A deduction was created for interest on bonds issued by a regional railway authority in North Dakota. For tax years beginning after December 31, 1980, corporation income tax rates were reduced to:

TAXABLE INCOME:	
Up to \$3,000 .....	2.0%
\$ 3,000 to \$ 8,000.....	3.0%
\$ 8,000 to \$ 20,000.....	4.0%
\$ 20,000 to \$ 30,000.....	5.0%
\$ 30,000 to \$ 50,000.....	6.0%
Over \$50,000 .....	7.0%

**1983 Session.** Declaration of estimated tax requirements was adopted for corporations with estimated taxes of more than \$5,000. Corporation income tax rates for tax years beginning after December 31, 1982, were increased to the following:

TAXABLE INCOME:	
Up to \$3,000 .....	3.0%
\$ 3,000 to \$ 8,000.....	4.5%
\$ 8,000 to \$ 20,000.....	6.0%
\$ 20,000 to \$ 30,000.....	7.5%
\$ 30,000 to \$ 50,000.....	9.0%
Over \$50,000 .....	10.5%

**1985 Session.** A tax credit was provided for investments made in a North Dakota venture capital corporation.

**1987 Session.** Corporations were allowed to choose the water's edge method of apportioning income for tax years beginning after December 31, 1988. An alternative minimum tax was enacted. A deduction was added for dividends from the Myron G. Nelson Fund, Inc., a state established venture capital corporation. Credits were

created for research expenditures, for investments in the Myron G. Nelson Fund, Inc., and for North Dakota wages paid to developmentally disabled or chronically mentally ill employees. Income tax returns included a provision for optional contributions to the nongame wildlife fund. Limitations were removed on the type of business qualifying for the new business exemption. The exemption had been limited to assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any agricultural, mineral or manufactured product. In effect, qualifications were expanded to include service and retail industries.

**1989 Session.** A credit was added for investment in a nonprofit development corporation. The alternative minimum tax (AMT) rate was changed from 5% to 6%. A credit was created for the amount the alternative minimum tax exceeds regular liability in past years. The water's edge election was made binding for five years instead of ten. The spreadsheet requirement was reduced from yearly to the first year and every third year thereafter. The centennial tree trust fund was added as an optional contribution.

**1991 Session.** The AMT was repealed and the remaining AMT credit was allowed to be carried over for up to four years. A deduction was added for certain federal AMT disallowed on previous state returns. Requirements that corporation income tax returns provide for optional contributions to funds for wildlife and centennial trees were repealed. The legislature approved the Taxpayer Bill of Rights. The income tax exemption for new or expanding businesses was decoupled from the property tax exemption and was limited to value-added primary sector and tourism businesses.

**1993 Session.** Limited liability companies (LLC), a new form of business entity, were legalized. The requirement to file informational returns was removed for tax exempt organizations and insurance companies subject to the insurance premium tax (see page 91). Unrelated taxable income must be reported. A credit was created for alternative fuel equipment installed on motor vehicles.

**1994 Special Session.** Project size limitations were removed as qualifications for the new or expanding business tax exemption, allowing large projects to qualify.

**1995 Session.** The Myron G. Nelson Fund, Inc. was changed to the North Dakota Small Business Investment Company, a limited partnership. The tax credit provisions did not change. Corporations with parent and subsidiaries

operating totally in the state were required to file a state consolidated corporation income tax return using the combined report method for tax years beginning after December 31, 1994.

**1997 Session.** The law was changed for a single member LLC. A single member LLC will be treated as a corporation for North Dakota purposes if treated as a corporation for federal income tax purposes; otherwise it must be disregarded as an entity separate from its owner. If any LLC meets the definition of a financial institution, as defined in N.D.C.C. ch. 57-35, it must file as a financial institution. A corporation may elect to apply an overpayment of estimated tax to a specific estimated installment other than the first quarter's installment. A number of changes were made affecting the interest calculation provisions.

**1999 Session.** The interest rate on refunds was increased from 10% per year to 1% per month (or a fraction of a month), equalizing the rate of interest on a refund to the rate of interest charged on late payments or additional tax due. Cities were provided authority to create "renaissance zones." Various income exemptions and tax credits are allowed for investments in an approved renaissance zone.

**2001 Session.** For tax-exempt organizations, the due date to file returns reporting unrelated business taxable income was changed to the 15th day of the fifth month following the tax year end. A change was made to extend the time period to assess tax. When a 25% understatement of taxable income or income tax exists, an extension may be entered into before the six-year assessment statute expires.

The tax credit for geothermal, solar or wind energy devices was changed. Property leased in North Dakota became eligible. For devices installed after December 31, 2001, the credit is 3% of acquisition and installation cost, in each of the first 5 tax years. Pass-through entities' owners claim the entities' credit in proportion to the ownership interest. The credit is available for devices installed before January 1, 2011

For tax assessments made after December 31, 2000, a regulated investment company is allowed a deduction for dividends paid to the shareholders or to a fund of a regulated investment company.

For renaissance zones, a change was made to allow an exemption for income from property owned or leased for either a business or investment purpose. The exemption was also extended to qualifying rehabilitations of



residential or commercial property. The tax credit for investing in the preservation or renovation of historic property was changed to 25% of the investment, not to exceed \$250,000. The credit must be claimed in the year the work is completed. A December 31, 2004 sunset date for the credit was removed.

**2003 Session.** The deduction for federal income taxes paid was eliminated for tax years beginning after December 31, 2003. In conjunction, corporation income tax rates became:

TAXABLE INCOME:	
Up to \$3,000 .....	2.6%
\$ 3,000 to \$ 8,000.....	4.1%
\$ 8,000 to \$ 20,000.....	5.6%
\$ 20,000 to \$ 30,000.....	6.4%
Over \$30,000 .....	7.0%

Corporations electing the water's edge filing method are subject to an additional 3.5% surtax on North Dakota taxable income.

North Dakota net operating losses in tax years beginning after December 31, 2002 cannot be carried back to a previous tax year. Such losses can only be carried forward.

Based on a North Dakota Supreme Court ruling, the North Dakota domestic dividend exclusion was repealed, effective for tax years beginning after December 31, 1999.

A credit was created for costs incurred to retrofit an existing facility or adapt a new facility to produce or blend biodiesel fuel.

## STATE COMPARISONS

Please note that a comparison of corporation income tax obligations would need to consider, in addition to tax rates, complex variables such as different state definitions of taxable income and circumstances of each corporation.

### Corporation Income Tax Collections

<u>Fiscal Year</u>	<u>Net Collections</u>
1994	50,727,400
1995	44,027,738
1996	49,047,417
1997	50,300,520
1998	65,543,025
1999	57,877,194
2000	47,528,001
2001	51,606,853
2002	41,374,297
2003	46,027,577
2004	40,257,083
2005 est.	43,392,000

SOURCE: North Dakota Office of State Tax Commissioner



## Comparison of State Corporation Income Tax Rates As of January 1, 2004

A comparison of tax **obligations** would also need to consider complex variables such as different state definitions of taxable income and circumstances of each corporation.

State	Tax Rate - Corporations		Income Brackets		Tax Rate Financial Inst.		Is Federal Income Tax Deductible?
	Lowest	Highest	Lowest (Up To)	Highest (Over)	Lowest	Highest	
Alabama	6.5%		Flat Rate		6.5%		Yes
Alaska	1.0%	9.4%	\$10,000	\$90,000	1.0%	9.4%	No
* Arizona	6.968%		Flat Rate		6.968%		No
Arkansas	1.0%	6.5%	\$3,000	\$100,000	1.0%	6.5%	No
* California	8.84%		Flat Rate		10.84%		No
Colorado	4.63%		Flat Rate		4.63%		No
* Connecticut	7.5%		Flat Rate		7.5%		No
* Delaware	8.7%		Flat Rate		8.7%	1.7%	No
* Florida	5.5%		Flat Rate		5.5%		No
Georgia	6.0%		Flat Rate		6.0%		No
* Hawaii	4.4%	6.4%	\$25,000	\$100,000	7.92%		No
* Idaho	7.6%		Flat Rate		7.6%		No
* Illinois	7.3%		Flat Rate		7.3%		No
Indiana	8.5%		Flat Rate		8.5%		No
Iowa	6.0%	12.0%	\$25,000	\$250,000	5.0%		Yes-50%
* Kansas	4.0%		Flat Rate		2.25%		No
* Kentucky	4.0%	8.25%	\$25,000	\$250,000			No
* Louisiana	4.0%	8.0%	\$25,000	\$200,000			Yes
* Maine	3.5%	8.93%	\$25,000	\$250,000	1.0%		No
Maryland	7.0%		Flat Rate		7.0%		No
* Massachusetts	9.5%		Flat Rate		10.5%		No
* Michigan	1.9%		Flat Rate				No
* Minnesota	9.8%		Flat Rate		9.8%		No
Mississippi	3.0%	5.0%	\$5,000	\$10,000	3.0%	5.0%	No
* Missouri	6.25%		Flat Rate		7.0%		Yes-50%
* Montana	6.75%		Flat Rate		6.75%		No
* Nebraska	5.58%	7.81%	\$50,000				No
Nevada	no tax						
* New Hampshire	8.5%		Flat Rate		8.5%		No
* New Jersey	9.0%		Flat Rate		9.0%		No
New Mexico	4.8%	7.6%	\$500,000	\$1,000,000	4.8%	7.6%	No
* New York	7.5%		Flat Rate		7.5%		No
* North Carolina	6.9%		Flat Rate		6.9%		No
* <b>NORTH DAKOTA</b>	<b>2.6%</b>	<b>7.0%</b>	<b>\$3,000</b>	<b>\$30,000</b>	<b>7.0%</b>		<b>No</b>
* Ohio	5.1%	8.5%	\$50,000				No
Oklahoma	6.0%		Flat Rate		6.0%		No
* Oregon	6.6%		Flat Rate		6.6%		No
* Pennsylvania	9.99%		Flat Rate				No
* Rhode Island	9.0%		Flat Rate		9.0%		No
* South Carolina	5.0%		Flat Rate		4.5%		No
* South Dakota	no tax				6.0%		
Tennessee	6.5%		Flat Rate		6.5%		No
* Texas	4.5%		Flat Rate				No
* Utah	5.0%		Flat Rate		5.0%		No
* Vermont	7.0%	9.75%	\$10,000	\$250,000	7.0%	9.75%	No
* Virginia	6.0%		Flat Rate		6.0%		No
Washington	no tax						
West Virginia	9.0%		Flat Rate		9.0%		No
Wisconsin	7.9%		Flat Rate		7.9%		No
Wyoming	no tax						
* District of Columbia	9.975%		Flat Rate		9.975%		No

\* See footnotes on following page.

Nevada, Washington and Wyoming do not have state corporate income taxes.

# Comparison of State Corporation Income Tax Rates

## Footnotes

**Arizona** Minimum tax, \$50.

**California** Minimum Tax is \$800. Tax rate on S-corporations is 1.5% (3.5% for banks).

**Connecticut** Or 3.1 mills per dollar of capital stock and surplus (maximum tax \$1 million) or \$250.

**Delaware** For banks, the marginal rate decreases over 4 brackets ranging from \$20 to \$650 million in taxable income. Building and loan associations are taxed at a flat 8.7%.

**District of Columbia** Minimum tax, \$100. Includes surtax.

**Florida** Or alternative minimum tax, 3.3%. An exemption of \$5,000 is allowed.

**Hawaii** Capital gains are taxed at 4%. There also is an alternative tax of 0.5% of gross annual sales.

**Idaho** Minimum tax, \$20. Additional \$10 tax on each return.

**Illinois** Includes a 2.5% personal property replacement tax.

**Iowa** Allows deductions of 50% of federal income taxes.

**Kansas** Plus 3.35% surtax is imposed on taxable income in excess of \$50,000. (2.125% for banks on taxable income in excess of \$25,000).

**Kentucky** Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

**Louisiana** Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

**Maine** Or 27% on federal alternative minimum taxable income.

**Massachusetts** Rate includes a 14% surtax, as does the following: an additional tax of \$7.00 per \$1,000 on taxable tangible property (or net worth allocable to state, for intangible property corporations); minimum tax of \$456.00.

**Michigan** Michigan imposes a single business tax (sometimes described as a business activity tax or value added tax) of 1.9% of the sum of federal taxable income of the business, compensation paid to employees, dividends, interest, royalty paid and other items.

**Minnesota** An additional tax equal to 5.8% on any alternative minimum taxable income over the base tax.

**Missouri** 50% of federal income tax is deductible.

**Montana** Corporations electing to use water's edge apportionment are taxed at 7%. Minimum tax, \$50.

**Nebraska** Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

**New Hampshire** Plus a .50% tax on the enterprise base (total compensation, interest and dividends paid). Business profits tax imposed on both corporations and unincorporated associations.

**New Jersey** The rate reported in the table is the corporation business franchise tax rate. The minimum tax is \$500. An Alternative Minimum Assessment based on Gross Receipts applies if greater than corporate franchise tax. Corporations not subject to the franchise tax are subject to a 7.25% income tax. Banking and financial corporations are subject to the franchise tax. Corporations with net income under \$100,000 are taxed at 6.5%. The tax on S-corporations is being phased out through 2007. The tax rate on a New Jersey S-corporation that has entire net income not subject to federal corporate income tax in excess of \$100,000 will remain at 1.33% for privilege periods ending on or before June 30, 2006. The rate will be 0.67% for privilege periods ending on or after July 1, 2006, but on or before June 30, 2007; and there will be no tax imposed for privilege periods ending on or after July 1, 2007. The tax on S-corporations with entire net income not subject to federal corporate income tax of \$100,000 or less is eliminated for privilege periods ending on or after July 1, 2007.

**New York** Or 1.78 mills per dollar of capital (up to \$350,000); or a 2.5% alternative minimum tax; or a minimum tax of \$1,500 to \$100 depending on payroll size; if any of these is greater than the tax computed on net income. Small corporations with income under \$290,000 are subject to lower rates of tax on net income. An additional tax of 0.9 mills per dollar of subsidiary capital is imposed on corporations. For banks the alternative bases of tax are 3% of alternative net income; or up to 1/50th mill of taxable assets; or a minimum tax of \$250.

**North Carolina** Financial institutions are also subject to a tax equal to \$30 per one million in assets.

**North Dakota** Minimum tax for banks is \$50 in North Dakota. Corporations electing the water's edge method pay an additional 3.5% surtax on North Dakota taxable income.

**Ohio** Or 4.0 mills times the value of the taxpayer's issued and outstanding share of stock with a maximum payment of \$150,000. An additional litter tax is imposed equal to .11% on the first \$50,000 of taxable income, .22% on income over \$50,000; or .14 mills on net worth.

**Oregon** Minimum tax, \$10.

**Pennsylvania** Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income.

**Rhode Island** Minimum tax is \$250. For banks, the alternative tax is \$2.50 per \$10,000 of capital stock (\$100 minimum).

**South Carolina** Savings and Loans are taxed at a 6% rate.

**South Dakota** Minimum tax for banks, \$500 per location.

**Texas** Imposes a franchise tax of 4.5% of earned surplus or 2.5% of net worth.

**Utah** Minimum tax, \$100.

**Vermont** Minimum tax, \$250.

**Virginia** State and national banks subject to the state's franchise tax on net capital is exempt from the income tax.

SOURCE: Federation of Tax Administrators.

# SALES AND USE TAXES

## CURRENT LAW

### Sales Tax And Use Tax

#### Imposition and Rates

**Sales Tax.** North Dakota imposes a sales tax on the gross receipts of retailers. The tax is paid by the purchaser and collected by the retailer.

The sales tax is levied as follows:

- 2% rate on the gross receipts from retail sales of natural gas.
- 3% rate on the gross receipts from retail sales of new farm machinery and new irrigation equipment used exclusively for agricultural purposes, and new mobile homes.
- 3% sales tax surcharge on each motor vehicle rental contract for a period of fewer than thirty (30) days, provided the gross vehicle weight of the motor vehicle is ten thousand pounds or less.
- 5% general rate on the gross receipts from retail sales of tangible personal property, communication services, magazines and other periodicals sold over the counter, cigarettes and tobacco products, and admission tickets for recreation activities; from the rental of bed and breakfast accommodations; and from the leasing of tangible personal property.
- 6% rate on the gross receipts from the rental of hotel, motel or tourist court accommodations for periods of less than 30 consecutive days, excluding bed and breakfast accommodations. (5% after June 30, 2007)
- 7% rate on the gross receipts from retail sales of alcoholic beverages sold for consumption either on or off the premises.

**Use Tax.** The purchase price of tangible personal property purchased outside of the state for storage, use or consumption within the state is subject to a use tax. In addition, tangible personal property not originally purchased for use in North Dakota is subject to a use tax based upon its fair market value at the time it was brought into the state. Credits are allowed for sales and use taxes paid to other states.

The use tax is collected by any retailer who maintains in this state, directly or indirectly, an office, distribution house, sales house, warehouse, or other place of business or has a sales representative operating in this state either permanently or temporarily.

Use tax is paid by contractors installing materials in real property, including real property owned by government and tax-exempt entities. North Dakota use tax is also paid by contractors buying materials in North Dakota and installing them in other states, except Montana.

Use tax rates are the same as the sales tax rates listed.

**Local Sales and Use Taxes.** Cities or counties which have adopted home rule charters may levy sales and use taxes. The city or county may contract with the North Dakota Office of State Tax Commissioner to collect the local taxes. The state pays the revenue collected to the local governments on a monthly basis. Cities with a local tax during the 2001-2003 biennium are listed on page 37.

#### Exemptions

Receipts from the sale of tangible personal property for the purpose of “resale” or “processing” by the purchaser are not subject to the sales and use tax. In addition, receipts from the sale of the following items are exempt from sales and use tax:

- Food for human consumption off the premises unless prepared for immediate consumption.
- Food used as samples in grocery stores.
- Commercial fertilizers, fungicides, herbicides, adjuvants, feeds, and seeds used for agricultural purposes.
- Agricultural by-products used to produce steam or electricity.
- Interstate communications (telephone calls, etc.).
- Hotel or motel rooms rented by or for same individual for 30 or more consecutive days.
- Machinery and equipment that a new or expanding plant uses primarily for manufacturing, processing or recycling (the company must get pre-approval or pay the tax and apply for a refund).
- Materials used to construct an agricultural processing plant (the company must get pre-approval or pay the tax and apply for a refund).

- Computer and telecommunications equipment that is an integral part of a new or expanding primary sector business other than a manufacturer or recycler (the company must be certified as a primary sector business by the Department of Commerce and get pre-approval for the exemption or pay the tax and apply for a refund).
- Production equipment in a large coal-burning power plant and tangible personal property used in construction of the plant.
- Production equipment in a wind-powered electrical generating facility constructed before January 1, 2011 and with a nameplate capacity of at least one hundred kilowatts and other tangible personal property used in construction of the facility (the plant operator must get pre-approval or pay the tax and apply for a refund).
- Used mobile homes.
- Used farm machinery, used irrigation equipment, and new and used farm machinery repair parts.
- Newspapers.
- Newsprint and printer's ink sold to publishers.
- Magazine subscriptions.
- Electricity.
- Water (one gallon or more).
- Steam used to process agricultural products.
- Flight simulators or mechanical equipment used with a flight simulator.
- Money.
- Lottery tickets.
- Admissions to, or sales made at, an annual church supper or bazaar held in a publicly-owned building.
- Admission tickets to state or local fairs.
- Performances of community non-profit music or dramatic arts organizations (if proceeds used for charitable purposes).
- Film rentals if admissions to view the film are subject to sales tax.
- Prescription drugs.
- Artificial medical devices.
- Mobility-enhancing equipment for use by physically disabled persons.
- Oxygen and anesthesia gases for medical purposes.
- Diabetic and bladder dysfunction supplies.
- Ostomy devices and supplies.
- Items sold to federal chartered credit unions.
- Items subject to other taxes such as coal if not used for heating, beneficiated coal, aircraft, motor vehicles, gasoline, and combustible fuels.
- Items sold to private non-profit schools.
- Bibles, hymnals, textbooks, prayerbooks sold to nonprofit religious organizations.
- Items sold to governmental agencies, including public schools.
- Items sold to residents of Montana if the total taxable sales price exceeds \$50.
- Items sold to residents of Canada if purchase is over \$25 (must apply for a refund of tax paid).
- Items sold to a Commerce Authority for use in the Authority's infrastructure.
- Items sold on an Indian reservation to an enrolled Native American.
- Goods sold to a hospital or skilled nursing, basic care or intermediate care facility.
- Items sold at an auction unless the auctioneer is selling retail inventory or consigned goods owned by an undisclosed principal.
- Items sold to a charitable organization to be awarded as a prize in a raffle if the winner is subject to tax upon receipt.

## Administration

Every business making taxable retail sales and every business accruing a use tax liability must obtain a North Dakota sales and use tax permit from the North Dakota Office of State Tax Commissioner. A consolidated form is available to register for a sales and use tax permit, income tax withholding, unemployment insurance and workers compensation.

Most businesses pay sales and use taxes on a quarterly basis. However, businesses reporting taxable sales and purchases of \$333,000 or more during the previous calendar year must file monthly returns. Businesses required to file and pay monthly returns are allowed to deduct and retain a compensation allowance of 1½% of the tax due, up to a maximum of \$85 per month if the returns are filed on time.

Whether the tax is paid monthly or quarterly, the tax payment and a return reporting all sales and purchases are due the last day of the month following the end of the reporting period. In odd-numbered years, monthly returns for May are due June 22.

## Distribution of Revenue

Revenue collected from the sales and use tax is divided between the State General Fund and the State Aid Distribution Fund. The formula to determine the State Aid Distribution Fund portion is designed to keep the amount constant regardless of tax rate changes. The formula is:

$$40\% (1\% \div \text{by general sales tax rate}) (\text{net collections})$$

This formula to determine the State Aid Distribution Fund currently yields 8% of the net collections. The distribution of the State Aid Distribution Fund portion is 53.7% to revenue sharing for counties and 46.3% for cities.

### **Motor Vehicle Excise Tax**

#### **Imposition and Rates**

The purchase price of any motor vehicle purchased or acquired, either within or outside of North Dakota, for use on the streets or highways of this state is subject to a motor vehicle excise tax if the vehicle is required to be registered in North Dakota.

The motor vehicle excise tax is 5% of the purchase price (the sale price less any trade-in amount). If the vehicle is acquired by means other than purchase, the tax is 5% of the fair market value. When a motor vehicle weighing less than ten thousand pounds is leased for at least one year, the motor vehicle excise tax is 5% of the lease consideration. All other leased vehicles are taxed at 5% of the purchase price. North Dakota allows credit for any excise tax paid on a motor vehicle in another state if that state allows a reciprocal credit.

The motor vehicle excise tax is in addition to motor vehicle registration fees for license plates. The registration fees are paid annually to the Department of Transportation.

#### **Exemptions**

A motor vehicle is exempt from the motor vehicle excise tax if the vehicle is:

- A gift between a husband and wife, parent and child or brother and sister.
- Inherited.
- A motor carrier vehicle.
- Purchased for resale by a licensed dealer.
- Purchased by a disabled veteran.
- Purchased or leased by the State of North Dakota or a political subdivision of the state.
- A bus purchased by a nonprofit senior citizens' or handicapped persons' organization.
- Specially equipped for a disabled person.
- Owned by an individual and transferred to a partnership or corporation.
- Transferred from a partnership to one of the partners when the partnership dissolves.
- Acquired by a private nonprofit school for the transportation of students.

- Purchased by a charitable organization to be awarded as a prize in a raffle and the vehicle will be subject to tax when requested.
- Transferred between joint tenants in whose names the vehicle was previously titled if the vehicle is transferred without monetary considerations.
- Owned by a person who has a change of name due to marriage, adoption, or court order.
- Transferred without consideration to or from a person within 30 days before the person enters into or is discharged from the armed services of the United States or while the person is serving in the armed forces of the United States.
- Subject to a lien change but only if the registered owner has not changed.
- Brought into North Dakota by a nonresident moving into the state and establishing residence in the state, and if the vehicle was not expressly purchased for use within North Dakota.
- Manufactured by persons for their own use.
- Transferred from a corporation to one of the stockholders when a corporation is dissolved.
- Acquired by a nonprofit county or local historical society that is exempt from federal income tax.
- Transferred from a revocable living trust to the spouse, child, or sibling of the trustor.

#### **Administration**

The motor vehicle excise tax is collected by the Department of Transportation.

#### **Distribution of Revenue**

Motor vehicle excise tax revenue is credited to the general fund.

### **Music And Dramatico-Musical Composition Performing Rights Tax**

A 5% tax is levied on the gross receipts from all sales, licenses and other dispositions of performing rights in music or dramatico-musical compositions. The tax is administered by the North Dakota Office of State Tax Commissioner and revenue from the tax is placed in the State General Fund.

### **Provider Assessment for Intermediate Care**

Beginning July 1, 2003, a quarterly assessment is billed to each licensed North Dakota intermediate care facility for the mentally retarded (ICFMR). The assessment is



charged for each licensed bed at the facility on the first day of each calendar quarter and is payable by the last day of each calendar quarter. The assessment amount, which is effective each July 1, is calculated by the Department of Human Services and may not be greater than the following:

$$\left[ 1\frac{1}{2}\% \text{ times aggregate annual gross revenues of all ICFMR as of December 31} \right] \div \text{Number of licensed beds as of December 31}$$

The Provider Assessment is administered by the Office of State Tax Commissioner and is deposited in the Provider Assessment Fund. The quarterly assessment rate as of July 1, 2003 was \$1,075 for each licensed bed.

### **Lodging Taxes**

#### **Imposition and Rates**

The governing body of any city may, by ordinance, impose a city tax, not to exceed 2%, upon the receipts from leasing or renting hotel and motel accommodations. Revenue from the tax must be deposited in a city visitors promotion fund to be used for tourism promotion. These funds may not be used for capital construction.

A city may impose an additional 1% tax on lodging accommodations and on receipts from restaurant sales of prepared food or beverages. Revenue from this tax must be deposited in the city visitors promotion capital construction fund.

#### **Administration**

The North Dakota Office of State Tax Commissioner administers and collects most city lodging taxes and remits the revenue to the cities on a monthly basis. An administrative fee of 3% of collections is deposited in the State General Fund. Devils Lake, Fargo, Grand Forks, Minot and Valley City administer their lodging taxes themselves.

### **Aircraft Excise Tax**

#### **Imposition and Rates**

A 5% tax is imposed on the purchase price or market value of aircraft registered in North Dakota. The tax applies whether the aircraft is purchased in North Dakota or outside the state. If the aircraft is purchased for lease or rental, the tax may be imposed on the lease or rental cost of the aircraft.

On aircraft designed exclusively for aerial applications of agricultural fertilizers, pesticides and other agricultural materials, a reduced tax rate of 3% applies to the purchase price or rental cost of the aircraft.

#### **Exemptions**

Exemptions to the aircraft excise tax are identical to motor vehicle excise tax exemptions.

#### **Administration**

The tax is paid by the purchaser to the Director of Aeronautics when the aircraft is acquired. The purchaser is required to submit the tax with an "aircraft purchaser's certificate" showing a description of the aircraft, the names and addresses of the buyers and sellers, and the full purchase price of the aircraft.

#### **Distribution of Revenue**

Revenue from the tax is deposited in the Aeronautics Commission Special Fund.

## **HISTORICAL OVERVIEW**

### **Significant Changes in Law**

**1935 Session.** The first general sales tax in North Dakota was enacted at a rate of 2%. The tax base generally consisted of all sales to consumers of personal property; sales or service of gas, electricity, water and communication; and sales of tickets to places of amusement.

**1939 Session.** A 2% general use tax was enacted.

**1963 Session.** The sales and use tax rate increased from 2% to 2¼%.

**1965 Referred Measure.** The sales tax law was referred and disapproved. Consequently, during the period July 1, 1965 to April 1, 1967 use tax was collected in place of the disapproved sales tax.

**1967 Session.** New sales and use tax laws were enacted imposing a 3% tax on the same sales transactions that were in effect through the 1963 sales tax law. The legislature enacted a separate 3% motor vehicle excise tax.

**1969 Session.** Sales tax, use tax, and motor vehicle excise tax rates were increased from 3% to 4%. The increase was used to replace revenue lost to local governments by the repeal of the personal property tax. The sales tax base was broadened to include tobacco products, alcoholic beverages, and oleomargarine.

**1973 Session.** Food purchased for off premises consumption was exempted from the sales and use tax.

**1975 Session.** Exemptions were added for sales of artificial devices for handicapped persons, coal, sales to nursing homes and intermediate care facilities, and the sales of certain religious books to nonprofit religious organizations.

**1976 Initiated Measure.** An initiated measure reduced the sales and use tax rate and the motor vehicle excise tax rate from 4% to 3%, reduced the rate on farm machinery and irrigation equipment from 4% to 2%, and eliminated the tax on electricity.

**1977 Session.** The legislature authorized home rule cities to contract with the Tax Commissioner to collect city sales and use taxes.

**1979 Session.** Exemptions to the sales and use tax law were added for sales to hospitals and for ostomy devices and supplies. The exemption for devices to aid the handicapped was expanded.

**1981 Session.** The sales and use tax on water, used mobile homes, and magazine subscriptions was eliminated. The tax rate on new mobile homes was reduced from 3% to 2%. Cities were permitted to levy a 2% city lodging tax.

**1983 Session.** The general sales and use tax rate and the motor vehicle excise tax rate were increased from 3% to 4% and the rate for farm machinery, irrigation equipment, and new mobile homes was increased from 2% to 3%. The legislature increased the rate for alcoholic beverages from 3% to 5%. The requirements for remittance of sales and use tax were changed from a quarterly basis to a monthly basis for businesses with taxable sales and purchases greater than \$333,000 in the preceding calendar year. Retailers required to file on a monthly basis were given a deduction for administrative expenses. The tax on aircraft sales was changed from the sales tax to a separate aircraft excise tax.

**1985 Session.** Exemptions for sales of candy, pop and chewing gum were repealed. The legislature authorized home rule counties to contract with the Tax Commissioner to collect county sales and use taxes.

**1986 Special Session.** The general sales and use tax rate and the motor vehicle excise tax rate was increased from 4% to 5%. The rate on farm machinery repair parts was lowered from 4% to 3%, and the rate on alcoholic beverages was increased from 5% to 6%. No change was made in the 3% rate for farm machinery, irrigation equipment, and new mobile homes.

**1987 Session.** The legislature increased the general sales and use tax rate and the motor vehicle excise tax rate from 5% to 5½%; the rate on farm machinery, irrigation equipment, farm machinery repair parts and new mobile homes from 3% to 3½%; and the rate on alcoholic beverages from 6% to 6½%.

The legislature added cable TV services to the tax base. [However, in a 1988 referred measure, the cable TV provision was rejected and did not take effect.] Exemptions were created for flight simulators, annual church suppers and bazaars, and adjuvants used with farm chemicals. The legislature required use tax collection by those who solicit sales by mail or other communication systems.

Effective July 1, 1989 a portion of the sales, use, and motor vehicle excise tax collections was allocated to the State Aid Distribution Fund to finance revenue sharing and personal property tax replacement. Cities were granted authority to impose a 1% lodging and restaurant tax.

**1989 Session.** The general sales and use tax rate and the motor vehicle excise tax rate was increased from 5½% to 6%. The rate on farm machinery, irrigation equipment, farm machinery repair parts, and new mobile homes was increased from 3½% to 4%; and the rate on alcoholic beverages was increased from 6½% to 7%. The legislature created a new rate of 3% on machinery and equipment used in manufacturing or in processing agricultural products.

The tax base was broadened to include bingo cards, coffee, tea, cocoa, and certain bottled water. State chartered credit unions lost the sales tax exemption on items purchased for their own use. The existing exemption for residents of Montana was modified and the exemption for residents of Canada was replaced with a refund provision. An exemption was created for prepared food given away as samples in a grocery store. A portion of sales, use and motor vehicle excise tax collections was allocated to the Capital Construction Fund. The legislature enacted a controlled substances tax.



**1989 Referral Election.** The general sales and use tax rate and the motor vehicle excise tax rate were reduced from 6% to 5%. The rate on farm machinery, irrigation equipment, farm machinery repair parts and new mobile homes was reduced from 4% to 3%. The rate on alcoholic beverages remained at 7%.

**1991 Session.** The legislature approved a gradual decrease in the rate on natural gas from 5% to 4% on January 1, 1993; to 3% on January 1, 1994; and to 2% on January 1, 1995. The 3% special rate for manufacturing equipment was changed to an exemption and an exemption was created for production equipment in coal-burning power plants. The legislature approved the Taxpayer Bill of Rights. The destination of aircraft excise tax revenue was changed from the State General Fund to the Aeronautics Commission Special Fund. A waste collection surcharge was imposed.

**1993 Session.** The Capital Construction Fund was repealed. The exemption for manufacturing machinery and equipment was clarified and expanded to include recycling machinery and equipment. Performances of community non-profit music or dramatic arts organizations held in a public facility were exempted. Items purchased by political subdivisions of another state were made taxable if the other state also taxes the items. A new highway contract privilege tax was established at 5% of the gross contract amount for contracts bid after July 31, 1993. This tax terminated December 31, 1997.

**1994 Special Session.** Qualifications for the manufacturing exemption include any machinery and equipment used primarily in the manufacturing operation from receipt of raw materials to any process before final transportation from the site. The exemption was expanded to include research and development equipment. A new exemption was created for materials used to construct an agricultural commodity processing facility.

**1995 Session.** Tire retreading was made taxable. The tax on controlled substances and the waste collection surcharge were repealed.

**1997 Session.** The legislature approved a sales and use tax of 6¢ per million British thermal units (MBTU) on all sales of coal, except for coal used for heating buildings or used in agricultural processing or sugar beet refining plants, or coal exempted from the tax imposed by N.D.C.C. ch. 57-61.

An exemption was provided to a political subdivision of another state provided a sale to a North Dakota political subdivision is treated as an exempt sale in that state.

**1999 Session.** The legislature changed the 6¢ per million British thermal units (MBTU) sales tax rate on coal to 75¢ per ton. The sales tax rate on used farm machinery, used irrigation equipment, and new and used farm machinery repair parts was reduced from 3% to 1½%. The exemption on manufacturing machinery and equipment was expanded to include crude oil refineries for the period February 1, 1999 through July 1, 2002. The legislature provided for corporations and LLCs to post a cash or surety bond in lieu of personal liability of the corporate offices, governors or managers.

**2001 Session.** The 75 cents per ton sales tax on out-of-state coal was repealed. The sales tax rate on used farm machinery, used irrigation equipment, and new and used farm machinery repair parts was changed from 1½% to a complete exemption effective July 1, 2002. The exemption for new power plants was expanded to include wind-powered electrical generating facilities and a new exemption was created for computer and telecommunication equipment purchased by new or expanding primary sector businesses other than manufacturers or recyclers. Sales tax was imposed on all vehicle rentals of less than 30 days at a rate of 5% and an additional 3% surcharge was imposed on vehicles weighing less than ten thousand pounds. The rate of penalty applied to delinquent sales tax returns was changed to 5% per month up to a maximum of 25%. The method of imposing motor vehicle excise tax on leased vehicles (cars and light trucks) was changed from paying tax on the lessor's purchase price to paying tax on the total lease consideration.

**2003 Session.** The legislature increased the tax rate on the rental of hotel, motel, and tourist court accommodations (excluding bed and breakfast facilities) from 5 to 6 percent from July 1, 2003 through June 30, 2007. New exemptions were created for purchases made by Commerce Authorities, purchases of raffle prizes made by charitable organizations when the prize winner is responsible for the tax, and on sales of lottery tickets. The legislature adopted the Streamlined Sales Tax Agreement effective January 1, 2006. The agreement is a cooperative effort between business representatives and state tax and revenue departments to modernize and simplify sales and use taxes across the country. Changes necessary for North Dakota to become compliant with the terms of the agreement were passed with a January 1, 2006 effective date.

## Sales, Use and Motor Vehicle Excise Taxes Collections and Disbursements

### TOTAL (Sales, Use and Motor Vehicle Excise Taxes)

Fiscal Year	All Funds Total	To General Fund	To State Aid Distribution Fund <sup>(1)</sup>
1994	298,425,168	263,073,339	35,351,829
1995	328,376,896	288,512,478	39,864,418
1996	329,134,892	299,638,706	39,496,187
1997	358,900,354	315,832,932	43,067,422
1998	363,158,056	319,584,864	43,573,192
1999	383,116,174	344,780,052	38,336,122
2000	386,340,221	355,433,005	30,907,266
2001	398,639,882	366,748,691	31,891,191
2002	401,460,878	369,344,008	32,116,870
2003	424,852,990	390,863,587	33,989,403
2004	438,530,207	403,447,790	35,082,417
2005 (est.)	473,826,000	436,035,000	37,791,000

Sales and Use Taxes				Motor Vehicle Excise Tax		
Fiscal Year	Total Sales and Use	General Fund	State Aid Distribution Fund <sup>(1)</sup>	Total Motor Veh. Taxes	General Fund	State Aid Distribution Fund <sup>(1)</sup>
1994	254,419,108	223,888,815	30,530,293	44,006,060	39,184,524	4,821,536
1995	282,291,474	248,416,497	33,874,977	46,085,422	40,095,981	5,989,441
1996	280,319,012	246,680,731	33,638,282	48,815,880	42,957,975	5,857,905
1997	307,553,834	270,647,374	36,906,460	51,346,520	45,185,558	6,160,962
1998	308,636,871	271,606,221	37,030,650	54,521,185	47,978,643	6,542,542
1999	331,027,858	297,895,606	33,132,252	52,088,316	46,884,446	5,203,870
2000	326,261,970	300,161,047	26,100,973	60,078,251	55,271,958	4,806,293
2001	340,114,586	312,905,419	27,209,167	58,525,296	53,843,272	4,682,024
2002	335,504,710	308,664,333	26,840,377	65,956,168	60,679,675	5,276,493
2003	360,819,598	331,954,030	28,865,568	64,036,392	58,912,557	5,123,835
2004	368,415,222	338,942,004	29,473,218	70,114,985	64,505,786	5,609,199
2005 (est.)	402,800,000	370,691,000	32,109,000	71,026,000	65,344,000	5,682,000

<sup>(1)</sup> The formula to calculate the State Aid Distribution Fund (S.A.D.F.) is: 40% (1% ÷ general sales tax rate) (net collections of sales, use, and motor vehicle excise tax collections). Revenues deposited in the state aid distribution fund are provided as a standing and continuing appropriation.

SOURCE: North Dakota Office of State Tax Commissioner and estimates prepared with the Office of Management and Budget.

<p style="text-align: center;"><b>Other Revenue Collections</b>  <b>Local Sales Taxes, Music and Composition</b>  <b>Tax and Provider Assessment Collections</b></p>
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<b><u>Fiscal Year</u></b>	<b><u>Local Sales &amp; Use</u></b> <sup>(1)</sup>	<b><u>City Lodging</u></b> <sup>(2)</sup>	<b><u>City Restaurant and Lodging</u></b>	<b><u>Music and Composition</u></b>	<b><u>Provider Assessment</u></b> <sup>(3)</sup>
1994	30,866,426	893,128	1,402,771	65,834	
1995	35,243,461	987,620	1,569,507	68,710	
1996	36,534,413	1,004,066	1,644,024	65,222	
1997	45,184,127	1,082,847	1,853,999	77,233	
1998	48,929,646	1,023,667	1,910,488	74,424	
1999	54,058,001	923,479	2,064,346	82,456	
2000	58,711,263	898,527	2,006,046	78,211	
2001	66,961,363	978,713	2,226,938	90,050	
2002	65,368,838	957,524	2,223,865	84,901	
2003	73,666,551	1,034,752	2,439,338	89,902	
2004	68,644,864	958,482	2,393,809	91,113	3,129,863

<sup>(1)</sup> Collections by the North Dakota Office of State Tax Commissioner.

<sup>(2)</sup> Amounts are city lodging taxes collected by the North Dakota Office of State Tax Commissioner. Devils Lake (effective July 1, 2003), Fargo, Grand Forks, Minot (effective January 1, 1998), and Valley City (effective April 1, 2000) administer city lodging taxes themselves and those collections are not included here.

<sup>(3)</sup> Effective July 1, 2003.

SOURCE: North Dakota Office of State Tax Commissioner.

# Local Sales And Use Taxes

## Net Collections Remitted

### 2001-2003 Biennium

City	Start Date	Tax FY-2002	Tax FY-2003	Biennium Total	City	Start Date	Tax FY-2002	Tax FY-2003	Biennium Total
Ashley	4/98	45,591	43,324	88,915	Lisbon	7/95	173,153	164,680	337,833
Beach	10/97	69,134	76,388	145,522	Maddock	10/02	.00	16,952	16,952
Belfield	4/95	79,633	67,672	147,305	Mandan	4/91	1,108,591	1,154,415	2,263,006
Berthold	1/96	16,397	17,991	34,388	Mayville <sup>(10)</sup>	1/97	128,352	135,653	264,005
Bismarck	4/86	7,814,636	8,528,798	16,343,434	McClusky	1/96	17,585	17,264	34,849
Bottineau <sup>(1)</sup>	10/93	388,370	393,875	782,245	McVile	1/02	3,413	15,060	18,473
Bowman	10/94	143,099	161,610	304,709	Medora <sup>(11)</sup>	1/00	190,323	250,275	440,598
Buffalo	01/03	.00	3,217	3,217	Michigan	10/01	14,929	21,657	36,586
Cando <sup>(8)</sup>	1/98	54,636	60,316	114,952	Milnor <sup>(12)</sup>	10/98	21,359	27,811	49,170
Carson	10/02	.00	6,109	6,109	Minot <sup>(13)</sup>	4/86	8,846,397	9,736,491	18,582,888
Carrington	1/94	201,257	208,050	409,307	Mohall	10/92	39,491	39,565	79,056
Cassellton	4/98	81,671	82,565	164,236	Mott	4/97	45,785	44,031	89,816
Cavalier <sup>(2)</sup>	10/94	201,398	210,384	411,782	Munich	1/99	9,187	8,862	18,049
Cooperstown	7/96	71,145	78,513	149,658	Napoleon	10/96	52,147	44,135	96,282
Crosby	1/93	64,886	68,576	133,462	New England	10/02	.00	17,470	17,470
Devils Lake <sup>(3)</sup>	7/88	1,375,053	1,625,053	3,000,106	New Leipzig	1/99	11,110	9,585	20,695
Dickinson <sup>(4)</sup>	7/90	2,009,324	2,878,072	4,887,396	New Rockford	10/96	77,940	75,328	153,268
Drayton	10/97	41,431	42,005	83,436	Northwood	01/03	.00	13,741	13,741
Edgeley	1/97	38,839	41,059	79,898	Oakes	10/96	145,157	143,293	288,450
Edinburg	4/99	13,918	13,886	27,804	Oxbow	1/02	3,803	15,640	19,443
Elgin	4/00	31,631	31,431	63,062	Park River	1/95	103,343	108,879	212,222
Ellendale	1/95	69,311	66,767	136,078	Pembina	1/93	57,435	55,079	112,514
Enderlin	10/98	62,277	71,742	134,019	Portland <sup>(10)</sup>	1/97	20,732	21,571	42,303
Fargo <sup>(5)</sup>	4/89	13,646,642	15,265,635	28,912,277	Powers Lake	4/97	22,690	24,020	46,710
Finley	10/98	40,634	46,848	87,482	Reeder	01/03	.00	1,521	1,521
Fort Ransom	1/00	8,144	8,611	16,755	Regent <sup>(8)</sup>	1/97	12,798	12,650	25,448
Garrison	1/96	80,479	87,491	167,970	Richardton <sup>(8)</sup>	10/97	19,789	20,832	40,621
Grafton	1/91	323,327	356,028	679,355	Rolette	01/03	.00	7,991	7,991
Grand Forks <sup>(6)</sup>	1/85	11,254,710	12,688,653	23,943,363	Rolla	1/94	152,247	167,461	319,708
Grenora	10/02	.00	5,993	5,993	Rugby	1/93	225,473	232,068	457,541
Halliday	7/96	12,412	11,430	23,842	Scranton <sup>(8)</sup>	4/02	1,071	18,166	19,237
Hankinson	10/97	38,187	40,568	78,755	St. John	1/01	10,303	10,439	20,742
Harvey	10/91	133,597	136,283	269,880	Stanley	10/95	83,642	82,688	166,330
Hatton	4/98	28,868	29,124	57,992	Steele	10/96	51,588	56,264	107,852
Hazleton	10/00	10,047	13,745	23,792	Strasburg	4/93	26,150	23,454	49,604
Hazen	4/95	125,852	132,105	257,957	Tioga	1/95	61,170	56,616	117,786
Hettinger <sup>(7)</sup>	7/96	84,828	103,857	188,685	Tower City	10/02	.00	8,291	8,291
Hillsboro <sup>(8)</sup>	10/98	77,200	128,193	205,393	Towner	10/98	30,201	29,307	59,508
Hoople	1/99	10,654	10,170	20,824	Turtle Lake	10/00	21,793	21,548	43,341
Hope	1/01	21,866	23,131	44,997	Valley City <sup>(14)</sup>	1/92	477,689	526,678	1,004,367
Jamestown <sup>(9)</sup>	7/91	1,565,875	3,089,337	4,655,212	Velva	1/99	40,928	39,187	80,115
Kenmare	1/93	72,436	77,127	149,563	Wahpeton <sup>(15)</sup>	7/91	925,949	1,049,837	1,975,786
Killdeer	4/95	44,548	52,546	97,094	Walhalla	10/97	57,547	72,101	129,648
Kulm	4/98	24,904	20,543	45,447	Washburn	10/00	80,606	77,593	158,199
LaMoure	1/97	52,551	61,168	113,719	Watford City	10/98	108,369	110,907	219,276
Langdon	1/94	164,835	160,329	325,164	West Fargo	10/94	1,608,968	1,704,625	3,313,593
Larimore	1/95	50,708	51,355	102,063	Williston	7/91	1,152,311	1,425,849	2,578,160
Lidgerwood	10/00	38,588	38,710	77,298	Wilton	10/00	30,950	26,521	57,471
Linton	10/93	62,288	59,991	122,279	Wishek	4/97	63,615	56,046	119,661
<b>Counties</b>					<b>Totals for Cities</b> \$ 57,183,896 \$65,476,471 \$ 122,660,367				
Cass <sup>(8)(16)</sup>	10/99	7,301,077	7,284,622	14,585,699	3/4 percent on all other taxable sales effective 4/1/96. Sales tax only until 7/1/00 when use tax was imposed.				
Walsh	4/01	141,371	161,918	303,289					
<b>Totals for Counties</b>		<b>\$ 7,442,448</b>	<b>\$ 7,446,540</b>	<b>\$ 14,888,988</b>					
<b>Total Local Option Taxes Paid</b>		<b>\$ 64,626,344</b>	<b>\$ 72,923,011</b>	<b>\$ 137,549,355</b>					

(1) Initial 1 percent tax imposed 10/1/93; additional 1 percent imposed 10/1/99.

(2) Initial 1 percent tax imposed 10/1/94; additional 1/2 percent imposed 10/1/98.

(3) Initial 1 percent tax imposed 7/1/88; additional 1/2 percent imposed 1/1/97.

(4) Initial 1 percent tax imposed 7/1/90; additional 1/2 percent imposed 1/1/02.

(5) Initial 1/2 percent tax imposed 4/1/89; additional 1/2 percent imposed 7/1/92.

(6) Initial 1 percent imposed 1/1/85; additional 1 percent imposed on sales of prepared food, beverages, on-sale alcohol beverages, and leasing or renting of hotel, motel, bed and breakfast, or tourist court accommodations; and

(7) Sales tax only until 7/1/02 when use tax was imposed.

(8) Initial 1 percent tax imposed 7/1/96; additional 1 percent 1/1/03.

(9) Initial 1 percent tax imposed 7/1/91; additional 1 percent 4/1/02.

(10) Initial 1 percent tax imposed 1/1/97; additional 1 percent 7/1/03.

(11) Initial 1 percent tax imposed 1/1/00; additional 1/2 percent 4/1/02.

(12) Initial 1 percent tax imposed 10/1/98; additional 1/2 percent 10/1/02.

(13) Initial 1 percent sales tax imposed 4/1/86; initial 1 percent use tax imposed 7/1/90. Additional 1 percent sales and use tax imposed 1/1/98.

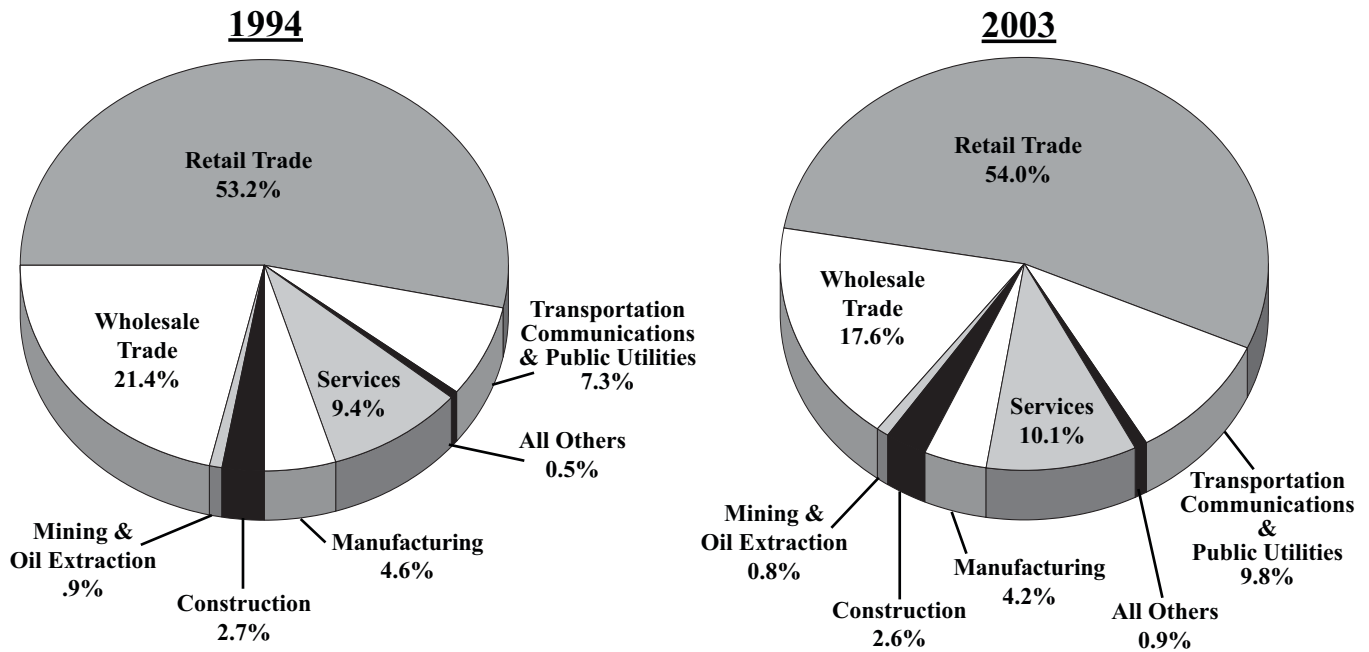
(14) Initial 1 percent tax imposed 1/1/92; additional 1/2 percent 7/1/03.

(15) Initial 1 percent tax imposed 7/1/91; additional 1/2 percent imposed 10/1/99.

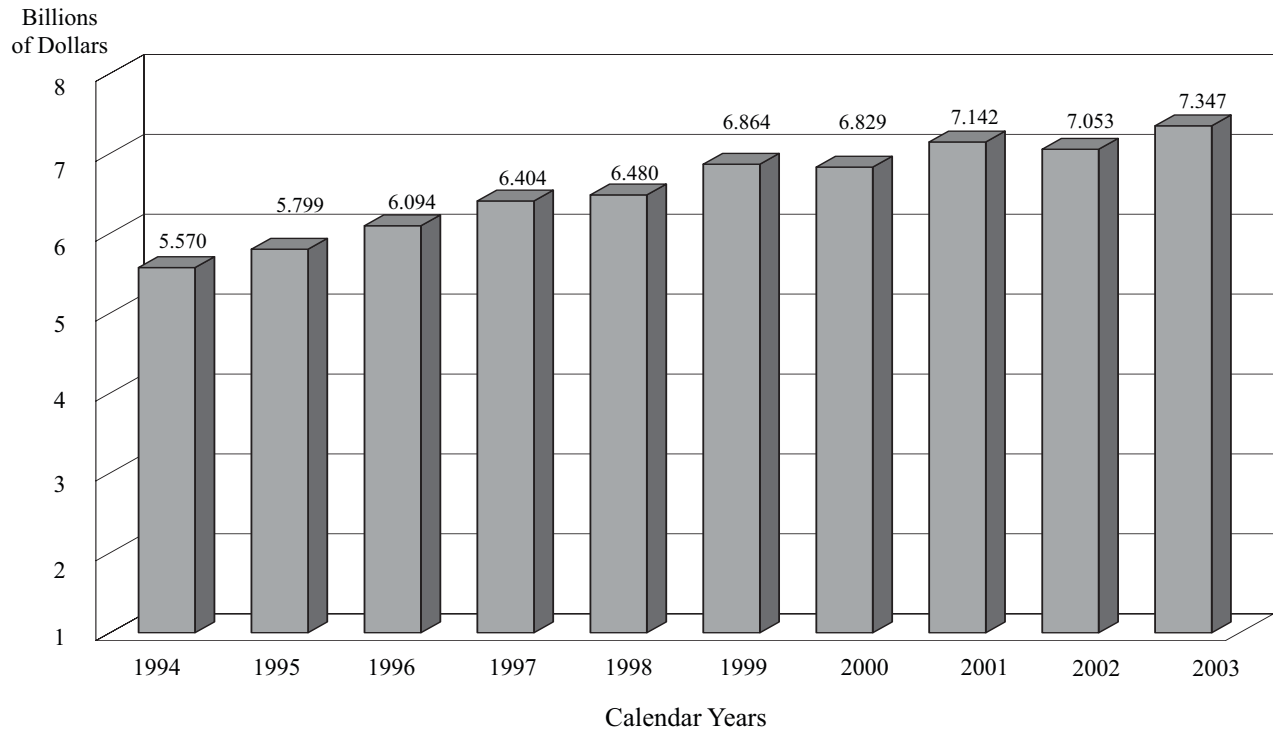
(16) Repealed effective 4/1/03.

SOURCE: North Dakota Office of State Tax Commissioner.

## Taxable Sales and Purchases Percentage by Business Classification Calendar Years 1994 and 2003



## Trends in Taxable Sales and Purchases



## North Dakota Sales and Use Tax Exemptions Estimated Biennial Fiscal Effect \*

	Biennial Estimate	
	Low	High
<b><u>Exempt Products</u></b>		
<b>Resources</b>		
Gasoline	\$48,000,000	\$60,000,000
Coal	25,000,000	30,000,000
Electricity	36,000,000	41,000,000
Water Through Mains	1,400,000	2,000,000
<b>Publishing</b>		
Newspapers	\$2,500,000	\$3,000,000
Magazine Subscriptions	1,200,000	1,500,000
Bibles, Hymnals, Prayerbooks and Textbooks Purchased by Private Schools		Less Than \$5,000
Textbooks Purchased by Students	400,000	500,000
<b>Medical</b>		
Prescription Drugs	\$8,800,000	\$12,825,000
Oxygen and Anesthesia Gases	50,000	80,000
Artificial Devices (Hearing Aids, Eyeglasses, Limbs)	1,100,000	1,900,000
Ostomy Devices and Supplies	50,000	80,000
Diabetic & Bladder Dysfunc- tion Supplies	250,000	350,000
Equipment to Modify Articles for Disabled	20,000	40,000
Sales to Hospitals and Nursing Homes	6,250,000	7,250,000
<b>Agricultural</b>		
Commercial Fertilizer (For Ag Purposes)	\$15,000,000	\$19,000,000
Livestock and Poultry		
Feed	13,500,000	18,000,000
Seeds for Planting	10,500,000	13,500,000
Fungicides, Herbicides, and Insecticides	14,500,000	19,000,000
Used Farm Machinery and Repair Parts	12,000,000	17,000,000
<b>Other</b>		
Money	250,000	350,000
Grocery Foods	60,000,000	70,000,000
<b>Exempt Products Total</b>	<b>\$256,770,000</b>	<b>\$317,375,000</b>

<b>Miscellaneous Exemptions</b>		
Rental of Hotel and Motel Accommodations	\$190,000	\$290,000
Film Rental (Movie Theater)	400,000	500,000
Sales to Residents of Montana	3,000,000	4,000,000
Sales to Residents of Canada (Refund)	300,000	600,000
State and Local Fairs	100,000	175,000
Private and Parochial Schools	500,000	700,000
Inter-State Telephone	2,000,000	4,000,000
Cable Television	3,000,000	4,000,000
Auctions	3,000,000	4,000,000
Manufacturing & Recycling Equipment	4,000,000	8,000,000
<b>Miscellaneous Exemptions Total</b>	<b>\$16,490,000</b>	<b>\$26,265,000</b>

	Biennial Estimate	
	Low	High
<b>Exempt Services</b>		
Veterinary Services	\$1,500,000	\$2,000,000
Financial Services	3,250,000	5,500,000
Oil and Gas Field Services	7,000,000	12,000,000
Construction	15,000,000	24,000,000
Funeral Services	2,000,000	3,000,000
Miscellaneous Personal Services	600,000	700,000
Farm Machinery Repair	1,000,000	2,000,000
Transportation Services	200,000	400,000
Lawn Care Services	600,000	800,000
Engineering, Architecture, and Surveying	700,000	1,300,000
Health Services	70,000,000	100,000,000
Laundry, Dry Cleaning Service	1,200,000	2,000,000
Beauty and Barber Shops	3,000,000	4,000,000
Automotive Repair	8,000,000	12,500,000
Miscellaneous Repair	3,500,000	5,500,000
Accounting, Auditing and Bookkeeping	3,200,000	4,200,000
Business Services	6,000,000	7,000,000
Legal Services	7,000,000	9,000,000
<b>Exempt Services Total</b>	<b>\$133,750,000</b>	<b>\$195,900,000</b>
<b>Grand Total All Exemptions</b>	<b>\$407,010,000</b>	<b>\$539,540,000</b>

### Partial Exemptions (fiscal effect is computed at 2%)

New - Farm Machinery and Repair Parts	\$9,000,000	\$13,000,000
New Mobile Homes	300,000	500,000
<b>Total Partial Exemptions</b>	<b>\$9,300,000</b>	<b>\$13,500,000</b>

\* Calculations are based on 5% state sales and use tax rate. All amounts are preliminary and subject to change as additional information becomes available.

SOURCE: North Dakota Office of State Tax Commissioner, Research Section

## Biennial Filing Deductions

### Sales Taxes \$ 3,800,000

Businesses with taxable sales and purchases of \$333,000 or more per year receive compensation of up to \$85 per month for filing monthly returns.

### Cigarette Tax \$ 50,000

Wholesalers who file and pay on time may deduct up to \$100 per month. This deduction was originally to compensate for stamping cigarette packages. In 1991 the stamping requirement was repealed, but the compensation remains.

SOURCE: North Dakota Office of State Tax Commissioner,



## STATE COMPARISONS

There are 14 states with general state sales tax rates lower than North Dakota's 5% rate. However, in comparing North Dakota's sales tax to other states, one must also consider the tax base, the goods and services subject to the tax, as well as the level of local sales taxes.

**Tax Base.** Does a state include groceries, electricity, prescription drugs, and services such as legal, business, accounting, architecture, lawn care?

In an effort to lessen the impact of taxes on a family's ability to buy necessities, North Dakota exempts groceries, residential electricity, and a few other essentials. States can also make a sales tax somewhat more progressive by taxing goods or services used mostly by upper income purchasers. The charts on the next few pages detail specific items taxed in each state.

**Local Sales Taxes.** In addition to a general state sales tax, most states allow local subdivisions to levy a sales tax as well. In some cases (Colorado, for example), the local rate may actually be higher than the state rate. As of January 2004, 100 cities and 1 county impose a local tax from  $\frac{1}{4}$  to  $2\frac{1}{2}$  percent. However, most local taxes apply to only the first \$2,500 worth of items in a given purchase. The most common local rate is 1 percent.

**Example.** A comparison of sales taxes in North Dakota and South Dakota provides a good example of the impact of different tax bases and local taxes. Because more goods and services are taxed in South Dakota, that state's 4% state sales tax rate generally results in a higher tax payment than North Dakota's 5% rate.

### State Sales Tax Rates Comparison with the Other 45 States (and D.C.) That Levy a Sales Tax September 1, 2004

	Number of States		
	Rates Lower Than N.D.	Rates the Same As N.D.	Rates Higher Than N.D.
Other States' Rates Compared to N.D.'s	14	7	24

Note: Out of a possible 164 taxable services, North Dakota taxes only 25 services and does not tax groceries or electricity.

**Total Sales and Gross Receipts  
Tax Collections Per Capita  
Fiscal Year 2003**

Rank	State	Per Capita Total Sales and Gross Receipts Taxes
1	Hawaii	\$ 1,868
2	Washington	1,648
3	Nevada	1,563
4	Connecticut	1,376
5	Florida	1,204
6	Minnesota	1,199
7	Tennessee	1,174
8	Rhode Island	1,147
9	Mississippi	1,129
10	Nebraska	1,085
11	West Virginia	1,077
12	South Dakota	1,062
13	Texas	1,056
14	New Jersey	1,044
15	Wyoming	1,031
16	<b>NORTH DAKOTA</b>	<b>1,025</b>
17	Michigan	1,011
18	Indiana	1,005
19	New Mexico	999
20	Wisconsin	996
21	Arizona	988
22	Maine	981
23	Kansas	978
24	Arkansas	975
25	Louisiana	973
26	Pennsylvania	968
27	Kentucky	944
28	California	899
29	Illinois	888
30	Vermont	884
31	Maryland	883
32	Ohio	882
33	Utah	856
34	Idaho	855
35	Iowa	851
36	Massachusetts	841
37	South Carolina	827
38	North Carolina	803
39	Alabama	744
40	Missouri	741
41	New York	701
42	Georgia	694
43	Virginia	645
44	Oklahoma	637
45	Colorado	614
46	New Hampshire	491
47	Montana	420
48	Delaware	410
49	Alaska	234
50	Oregon	210
	US Average	\$937

\* Total Sales and Gross Receipts Taxes includes taxes on alcoholic beverages, amusements, insurance premiums, motor fuels, parimutuels, public utilities, tobacco products and other selective sales.

SOURCE: US Dept. of Commerce, Census Bureau.

**General Sales and Gross Receipts  
Tax Collections Per Capita  
Fiscal Year 2003**

Rank	State	Per Capita General Sales and Gross Receipts Taxes
1	Hawaii	\$1,425
2	Washington	1,306
3	Nevada	978
4	Tennessee	927
5	Connecticut	880
6	Florida	879
7	Mississippi	854
8	Wyoming	849
9	Nebraska	821
10	Arizona	776
11	Minnesota	772
12	Michigan	762
13	New Mexico	730
14	Arkansas	716
15	Rhode Island	710
16	South Dakota	706
17	California	702
18	Kansas	693
19	New Jersey	687
20	Wisconsin	683
21	Indiana	680
22	Maine	657
23	Texas	649
24	Utah	633
25	Idaho	616
26	South Carolina	616
27	Pennsylvania	612
28	Ohio	591
29	Iowa	587
30	Kentucky	580
31	Massachusetts	576
32	<b>NORTH DAKOTA</b>	<b>569</b>
33	Louisiana	554
34	Georgia	549
35	West Virginia	540
36	Illinois	506
37	Maryland	494
38	Missouri	494
39	North Carolina	476
40	New York	461
41	Oklahoma	421
42	Colorado	403
43	Alabama	392
44	Virginia	364
45	Vermont	357
46	Alaska	n/a
47	Delaware	n/a
48	Montana	n/a
49	New Hampshire	n/a
50	Oregon	n/a
	US Average	\$636

SOURCE: US Dept. of Commerce, Census Bureau.

# **Comparison of State Sales Tax Rates** Tax Rates in Effect September 2004

States	General State Rate	Highest Local Rate	Grocery Foods	Alcohol	Farm Machinery	Electricity (non-mfg. use)	Natural Gas (non-mfg. use)	Water (Utilities)	(13) Taxable Services of 164	DIRECT MANUFACTURING USE			
										Consumables	Natural Gas	Electricity	Machinery
Alabama	4.0%	5.0%	4.0%	4.0%	1.5%	4.0%	4.0%	4.0%	32	4.0%	4%	4%	1.5%
Alaska*	N/A	7.0%	N/A	N/A	N/A	N/A	N/A	N/A	1	N/A	N/A	N/A	N/A
Arizona <sup>(4)</sup>	5.6%	3.0%	6.0%	5.6%	6.0%	6.0%	6.0%	6.0%	57	6.25%	5.6%	5.6%	6.25%
Arkansas	6.0%	3.5%	6.0%	6.25%	6.0%	6.0%	6.0%	6.0%	65	6.25%	6.0%	6.0%	6.25%
California	6.25%	1.5%	6.0%	6.25%	6.0%	6.0%	6.0%	6.0%	18	6.25%	6.0%	6.0%	6.25%
Colorado	2.9%	4.5%	6.0%	2.9%	(5)	2.9%	2.9%	2.9%	14	2.9%	2.9%	2.9%	2.9%
Connecticut	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	87	6.0%	6.0%	6.0%	6.0%
District of Columbia	5.75%	9.0%	10.0%	14					63	5.75%			5.75%
Delaware*	N/A	N/A	N/A	6.0%	N/A	N/A	N/A	N/A	142	N/A	N/A	N/A	N/A
Florida	6.0%	1.5%	6.0%	6.0%	2.5%	7.0%	6.0%	6.0%	64	6.0%	4.0%	4.0%	6.0%
Georgia	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	34	4.0%	4.0%	4.0%	4.0%
Hawaii	4.0%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	157	4.0%	4.0%	4.0%	4.0%
Idaho	6.0%	3.0%	6.0%	6.0%	4.0%	6.0%	6.0%	6.0%	29	6.0%	6.0%	6.0%	6.0%
Illinois	6.25%	2.75%	1.0%	6.25%	6.0%	6.0%	6.0%	6.0%	17	6.0%	6.0%	6.0%	6.0%
Indiana	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	22	6.0%	6.0%	6.0%	6.0%
Iowa	5.0%	1.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	94	5.0%	5.0%	5.0%	5.0%
Kansas	5.3%	2.8%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	76	5.3%	5.3%	5.3%	5.3%
Kentucky	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	26	6.0%	6.0%	6.0%	6.0%
Louisiana	4.0%	5.5%	4.0%	4.0%	4%	4.0%	4.0%	4.0%	61	4.0%	4.0%	4.0%	4.0%
Maine	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	27	5.0%	5.0%	5.0%	5.0%
Maryland	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	39	5.0%	5.0%	5.0%	5.0%
Massachusetts	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	20	5.0%	5.0%	5.0%	5.0%
Michigan	6.0%	1.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	29	6.0%	6.0%	6.0%	6.0%
Minnesota	6.5%	1.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	61	6.5%	6.5%	6.5%	6.5%
Mississippi	7.0%	0.25%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	70	7.0%	7.0%	7.0%	7.0%
Missouri	4.225%	4.5%	1.225%	4.225%	2.9%	4.225%	4.225%	4.225%	28	4.225%	4.225%	4.225%	4.225%
Montana*	N/A	4.5%	N/A	4.5%	N/A	4.5%	4.5%	4.5%	19	N/A	4.5%	4.5%	4.5%
Nebraska	5.5%	1.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	59	5.5%	5.5%	5.5%	5.5%
Nevada	2.0%	5.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	11	2.0%	2.0%	2.0%	2.0%
New Hampshire*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11	N/A	N/A	N/A	N/A
New Jersey	6.0%	9.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	50	6.0%	6.0%	6.0%	6.0%
New Mexico	5.0%	2.75%	5.0%	5.0%	2.5%	5.0%	5.0%	5.0%	152	5.0%	5.0%	5.0%	5.0%
New York	4.25%	4.3%	4.0%	4.0%	1.0%	4.25%	4.25%	4.25%	74	4.0%	4.0%	4.0%	4.0%
North Carolina	4.5%	3.0%	2.0%	6.0%	1.0%	3%	6.0%	6.0%	28	1.0%	2.83%	2.83%	1%
<b>NORTH DAKOTA</b>	5.0%	2.5%	2.0%	7.0%	3.0%	7.0%	2.0%	2.0%	25	5.0%	2.0%	2.0%	1.5%
Ohio	6.0%	2.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	52	5.0%	5.0%	5.0%	5.0%
Oklahoma	4.5%	5.0%	4.5%	4.5%	5.0%	4.5%	4.5%	4.5%	32	4.5%	4.5%	4.5%	4.5%
Oregon*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0	N/A	N/A	N/A	N/A
Pennsylvania	6.0%	1.0%	6.0%	6.0%	8%	6%	6%	6%	61	6%	6%	6%	6%
Rhode Island	7.0%	7.0%	7.0%	7.0%	5%	7%	7%	7%	28	7%	7%	7%	7%
South Carolina	5.0%	2.0%	5.0%	5.0%	3.0%	5%	5%	5%	32	3.0%	5%	5%	5%
South Dakota	4.0%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	141	4.0%	4.0%	4.0%	4.0%
Tennessee	7.0%	2.75%	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%	71	7.0%	7.0%	7.0%	7.0%
Texas	6.25%	2.0%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	78	6.25%	6.25%	6.25%	6.25%
Utah	4.75%	3.25%	4.75%	4.75%	5.0%	4.75%	4.75%	4.75%	54	4.75%	4.75%	4.75%	4.75%
Vermont	6.0%	1.0%	3.0%	4.0%	3.5%	5%	5%	5%	23	3.5%	5%	5%	5%
Virginia	4.0%	1.0%	3.0%	4.0%	6.5%	4.0%	4.0%	4.0%	18	6.5%	4.0%	4.0%	4.0%
Washington	6.5%	2.4%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	154	6.5%	6.5%	6.5%	6.5%
West Virginia	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	109	6.0%	6.0%	6.0%	6.0%
Wisconsin	5.0%	0.6%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	69	5.0%	5.0%	5.0%	5.0%
Wyoming	4.0%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	64	4.0%	4.0%	4.0%	4.0%

\* This state does not impose a sales tax.

## Comparison of State Sales Tax Rates - - Footnotes

- (1) Public Utility tax on production of electricity based on ratio 15% or less 5.885% each percentage increase .2675%.
- (2) Resides full exemption from manufacturing, Connecticut has a broader overlapping partial (50%) exemption from materials, tools, fuel, machinery and equipment used in fabricating and processing.
- (3) Electricity used to power manufacturing equipment is exempt.
- (4) Arizona is a Transaction Privilege Tax state, not a Sales Tax state.
- (5) Farm machinery is exempt from sales and use taxes if the purchaser is engaged in farming as a business enterprise.
- (6) In some states the tax is called a "utility tax" rather than a sales tax. In California the tax is an energy resources surcharge paid by consumers. In the District of Columbia, the tax is a gross receipts tax.
- (7) Residential use is exempt.
- (8) Agricultural use is exempt.
- (9) In Michigan, the tax rate is 4% on electricity and natural gas used for home heating.
- (10) Residential use is exempt, commercial is 7%, industrial 1.5%.
- (11) Exemption is based on percentage used in manufacturing.
- (12) Hotels and motels are exempt.
- (13) The number of taxable services is out of a possible 164 services covered in the study, "Sales Taxation of Services," Federation of Tax Administrators, 1996.
- (14) Nine percent for liquor sold for off-premise consumption and 10% for liquor sold for consumption on the premises.
- (15) The exemption is generally for machinery and equipment used for new or expanding production. States have different definitions and qualifications.
- (16) Materials, tools and fuel used in the actual fabrication of a product for sale, in an agricultural production process, or in the fishing industry are exempt.
- (17) Exempt when delivered to customers through mains, lines, pipes or bottles.
- (18) Exempt if consumed within 1 year.
- (19) Exempt when used in actual production process.
- (20) Residential use is exempt, but there is a public utility tax on all electricity at 2.5%.
- (21) Exempt if separate metered and used in electrolytic process manufacturing.
- (22) Amounts over 3% of production costs are exempt.
- (23) Exempt for business qualifying for "small business" status.
- (24) Exempt if more than 50% is used in manufacturing.
- (25) May apply for exemption, if electricity cost is greater than 10% of production costs.
- (26) Beer with alcohol content of 3.2% is taxed at 6.5%. Beer with alcohol content over 3.2%, hard liquor, and wine are taxed at 9%.
- (27) Farm machinery is taxed at 1% for farm tractors, 3% for listed farm implements, and 7% for nonlisted farm items.
- (28) If used directly in manufacturing, tax is 1% up to a maximum of \$80 tax per article.
- (29) Exempt if used exclusively for agricultural purposes, used on land that is owned or leased to produce farm products, and used directly in production of farm products.
- (30) Exempt by public utility then it is exempt. If sold by non-public utility then taxed at 5%.
- (31) Natural gas directly used to produce electricity is exempt from the 4% State Tax.
- (32) This is the Atlantic City Luxury Sales Tax which is imposed on specific taxable retail sales within Atlantic City.
- (33) Alcoholic beverages are also subject to an additional 3% AC Luxury Sales Tax on sales within Atlantic City.
- (34) There is a sales tax phase out on metered natural gas, electricity and fuels including propane and heating oils for residential use. 2004 rate is 2%. The phase-out will reduce the state rate by 1% each year through 2006.
- (35) Based on prior year megawatt hours.  $0-900,000 = 2.83\%$ . Over 900,000 hours = .17%
- (36) Pennsylvania imposes 6% sales tax on alcohol purchased from the Liquor Control Board or beer distributors/wholesalers. No tax is levied on retail sales of alcohol from eating/drinking establishments.
- (37) Sales of electricity and natural gas for non-residential use is subject to the suspended rate or 3.8% (effective through 6/30/09.)
- (38) Only three cities have this high rate. Weighted average of 1.45% is more representative.
- (39) Wine is subject to 6% sales tax. Other alcoholic beverages are not, however all alcoholic beverages are subject to 10% restaurant and lodging tax if purchases at a bar or restaurant.
- (40) Virginia has a three-tier tax rate system called a consumption tax for gas and electricity. This is paid by the consumer. The rate goes down as usage goes up.
- (41) There is a public utility tax levied on the provider, not a sales tax.
- (42) Effective July 1, 2004, 5% of the price of manufacturing machinery and equipment will be excluded from state sales tax. The phase-out continues until fully exempt beginning July 1, 2010.
- (43) Taxed at 7% if served at a restaurant.
- (44) First 750 kilowatt hours are exempt.
- (45) Industrial use is exempt.
- (46) Food for home consumption will become exempt beginning January 1, 2005.
- (47) Maximum of \$80 tax per item.
- (48) Mixed drinks sold at retail establishments are subject to a 14% gross receipts tax.
- (49) Commercial electric and gas utility rate is 4.75%.
- (50) Wine and liquor also subject to a 13% excise tax to pay for school lunches.
- (51) Effective July 1, 2004. Machinery must be purchased by a manufacturer classified under NAICS code sector 31-33, does not include non-capitalized machinery except machinery expensed under Section 179 of the IRS Code, and must be executed in the case of a lease and in the case of a sale on or after July 1, 2004.
- (52) The first \$50,000 of the sales price on certain farm equipment is exempt from the state sales tax.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Sales Tax Section, September 2004.

# Sales Tax Comparison of Surrounding States and Provinces

## Rates in Effect September 1, 2004

	NORTH DAKOTA	SOUTH DAKOTA	WYOMING	MINNESOTA	IOWA	(2) MANITOBA	(2) SASKATCHEWAN
<b><u>GENERAL STATE RATE</u></b>	5%	4%	4%	6.5%	5%	7%	7%
<b><u>MAXIMUM LOCAL RATE</u></b>	2.5%	2%	2%	1%	1%		
<b><u>PRODUCTS</u></b>							
Motor Vehicles (sales or excise tax)	5%	3%	4%	6.5%		7%	7%
Natural Gas (sales or utility)	2%	4% (3)	4% (4)	6.5% (5)	5% (6)	7% (34)	
Electricity		4%	4% (4)	6.5% (5)	5% (6)	7% (34)	7% (4)
Coal	5% (8)	4%	4% (4) (1)		5%		
City and Rural Water				6.5% (9)	5%		
Newspapers (retail & subscription)		4%				7%	
Magazines (retail)	5%	4%	4%	6.5%	5%	7%	
Magazines (subscriptions)		4%	4%		5%	7%	
Bibles/Textbooks to Religious Groups		4%			5%	7% (35)	
Prescription Drugs							
Agricultural Supplies			4% (7)			(36)	(10)
New Farm Machinery	3%	3%				(36)	
Farm Machinery Parts		4%	4%			(36)	
Alcoholic Beverages	7%	4%	4%	6.5% or 9% (13)	5%	7%	10%
Money (gold & silver coins)		4%			5%	7% (15)	7% (15)
Mobile Homes - - New	3%	3%	4% (11)	6.5% (16)	5% (17)	7% (18)	3.5% (19)
Mobile Homes - - Used		3%			(19)	7% (18)	3% (19)
Grocery Foods		4%	4%				
Restaurant	5%	4%	4%	6.5%	5%	7%	
<b><u>MISCELLANEOUS</u></b>							
Hotel & Motel Accommodation Rental	5% (20)	4%	4%	6.5%	5% (20)	7% (20)	7%
Film Rental to Theaters & TV Stations	(21)		4%				
Film Rentals (other than to Theatres/TV)	5%	4%	4%	6.5%	5%	7%	7%
State/Local Fairs/Admission				6.5%			
Inter-State Telephone				6.5%		7%	7%
Cable Television		4%		6.5%	5%	7%	7%
Receipts from Vending Machines	5%	4%	4%	6.5%	5%	7%	7% (24)
Sales to Private and Parochial Schools			4% (25)			7%	7%
Sales to Hospitals		4% (12)	4% (25)	6.5% (26)		7% (37)	7%
Sales to Nursing Homes		4%	4% (25)	6.5% (26)	5%	7% (37)	7%
<b><u>SERVICES (27)</u></b>							
Number of Taxable Services (28)	25	141	64	61	94	N/A	N/A
Veterinary Services		4%					7%
Financial Services		4% (28)			5%		
Oil & Gas Field Services (non-materials)		3% (29)	4%				
Construction (non-materials)		2% (30)				(38)	
Funeral Services		4%					
Miscellaneous Personal Services		4% (31)			5%		
Transportation Services		4% (22)	4% (14)		5% (14)		
Lawn Care Services		4%		6.5%	5%		
Engineering, Architecture & Surveying		4%				(23)	(23)
Health Services							
Laundry & Dry Cleaning Service		4%	4%	6.5%	5%	7%	7%
Beauty and Barber Shops		4%			5%		
Farm Machinery Repair		4%	4%		5%	(36)	
Automotive Repair		4%	4%		5%	7%	7%
Miscellaneous Repair		4%	4%		5%	7%	7%
Accounting, Auditing & Bookkeeping		4%				7%	7%
Business Services (consulting, etc.)		4%			(32)		
Legal Services		4%				7%	7%
<b><u>COMPENSATION TO RETAILERS</u></b>	Yes (33)	No	No	No	No	Yes (33)	Yes

## **Sales Tax Comparison of Surrounding States and Provinces**

### **Footnotes**

- (1) Exempt as a fuel for use as boiler fuel in the production of electricity.
- (2) Canada also levies a federal goods and services tax (GST) of 7% in addition to the general provincial sales tax (PST).
- (3) Exempt for agricultural use.
- (4) Exempt if used directly in manufacturing, processing, or agricultural.
- (5) Exempt for agriculture and industrial production of personal property and exempt for residential use during the winter months.
- (6) Exempt if used in manufacturing.
- (7) Exempt if feeds, seeds, roots, bulbs, small plants & fertilizer.
- (8) Coal mined in North Dakota is subject to severance tax and is exempt from sales tax. Coal mined outside North Dakota and coal used for heating buildings is subject to sales tax.
- (9) Residential water bills are exempt.
- (10) Exempt if primary function is for agriculture; multi use products are taxable.
- (11) Seventy percent of price.
- (12) Exempt if hospital is charitable or non-profit.
- (13) Beer with alcohol content of 3.2% is taxed at 6.5%. Beer with alcohol content over 3.2%, hard liquor, and wine are taxed at 9%.
- (14) Limo services are taxable. (Intra and Inter-state Transportation Services are exempt in Wyoming).
- (15) Taxable if sold above face value.
- (16) Sixty-five percent of dealer's cost of new mobile homes is taxed at 6.5% (effective rate is 4.225%).
- (17) Sixty percent of the purchase price is subject to a use tax.
- (18) Purchaser may apply for 50% refund, excluding furnishings.
- (19) Sales of used mobile homes are exempt if they have been taxed before.
- (20) Rooms rented by and for same individual are exempt if rented 30 consecutive days (in North Dakota) or 31 consecutive days (in Iowa). In Manitoba, hotels and motels rented for one continuous month or more are exempt, and rooms in a lodging/rooming boarding houses with accommodations for less than four tenants is also exempt.
- (21) Motion picture rentals to movie theatres are exempt.
- (22) Only passenger Transportation is taxable in South Dakota.
- (23) A percentage of design fees are taxable. For Architects, a percentage of Phase II, III, IV or V is taxable.
- (24) Vending machine receipts for taxable items are taxable. Pop and candy are not taxable items.
- (25) Sales to schools, hospitals or nursing homes considered charitable or religious are exempt on Wyoming.
- (26) Any licensed health care facility or a health care professional can purchase goods used in the treatment of a patient tax free. However, only a hospital can purchase medical equipment tax free.
- (27) The number of taxable services in the study "Sales Taxation of Services," Federation of Tax Administrators, 1996.
- (28) Real estate commissions are taxable; other financial services are exempt.
- (29) Activities listed under SIC Industry Group #138 are taxable at 3%.
- (30) Two percent on prime contract.
- (31) Most membership fees are exempt.
- (32) Investment counseling is taxable at 5%.
- (33) Maximum compensation to retailer in North Dakota is \$85 per monthly return (\$1,020 per year), and in Manitoba, \$58 per return. Effective July 1, 2004, vendors with tax reported of greater than \$3,000 in one period no longer receive compensation.
- (34) There is an exemption from revenue tax on electricity and natural gas used for heating residential dwellings, farm buildings and grain dryers, and for domestic purchases of coal.
- (35) Bibles/Textbooks to Religious Groups are exempt in Manitoba if they are printed and permanently bound, produced for use by the general public, published solely for educational, technical, cultural or literary purposes and contain no advertising.
- (36) Agricultural supplies, farm machinery and farm machinery parts can be purchased exempt by a farmer in Manitoba by completing a farm-use certificate.
- (37) Equipment and supplies designed solely for the use of physically disabled persons or chronic invalids, and drugs dispensed on the prescription of a medical practitioner are tax exempt in Manitoba.
- (38) Effective October 1, 2002, mechanical and electrical contracts are subject to 7% tax on the full selling price including materials and labor.



# OIL AND GAS TAXES

## CURRENT LAW

### Oil And Gas Gross Production Tax

#### Imposition and Rates

The oil and gas gross production tax is imposed in lieu of property taxes on oil and gas producing properties.

**Oil.** A 5% rate is applied to the gross value at the well of all oil produced, except royalty interest in oil produced from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation. Both the producer and purchaser of the oil are required to submit reports to the Tax Commissioner on a monthly basis. The reports show the volume and taxable value of sales of the production from each well. The producer remits the tax on oil not sold at the well. The purchaser is primarily responsible for remitting the tax on oil bought during a production month. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers are required to file monthly reports electronically.

**Gas.** The gross production tax on gas is an annually adjusted flat rate per thousand cubic feet (mcf) of all nonexempt gas produced in the state. The annual adjustments are made according to the average producer price index for gas fuels. Rates through June 30, 2005 are as follows:

<u>Time Period</u>	<u>Tax Rate</u>
July 1, 2002 - June 30, 2003	\$.0824
July 1, 2003 - June 30, 2004	\$.0615
July 1, 2004 - June 30, 2005	\$.1037

Exempt from the tax is gas used on the lease for production purposes and the royalty interest in gas produced from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation.

Shallow gas produced during the first 24 months of production from and after the first date of sales from a shallow gas zone after June 30, 2003, is exempt from gross production tax. This exemption is ineffective for gas wells completed or recompleted after June 30, 2007.

Monthly reports to the Tax Commissioner are required from both the producer and the purchaser/processor of the gas. The producer remits the tax on unprocessed gas and the purchaser/processor remits the tax on processed gas. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers/processors are required to file monthly reports electronically.

#### Distribution of Revenue

Revenue from the gross production tax is distributed under the following formula:

- One-fifth is deposited with the State Treasurer. Of this portion, 33 1/3% is allocated to the Oil and Gas Impact Grant Fund, up to a maximum of \$5 million per biennium. The remainder of this portion is credited to the State General Fund.
- Four-fifths is allocated between the State General Fund and the producing county according to the following formula:

<u>Revenue</u>	<u>County</u>	<u>State</u>
Up to \$1 million	75%	25%
\$1 to \$2 million	50%	50%
Over \$2 million	25%	75%

However, the amount any one county can receive per fiscal year is limited according to population as follows:

<u>Population</u>	<u>Maximum Distribution</u>
Up to 3,000	\$ 3.9 million
3,000 to 6,000	4.1 million
6,000 or more	4.6 million

Tax revenue distributed to a county is further split with 45% earmarked for the county general fund, 35% for the school districts within the county, and 20% to incorporated cities within the county.

### Oil Extraction Tax

#### Imposition and Rates

The oil extraction tax is levied on the extraction of oil from the earth. The tax rate is 6½% of the gross value at

the well of crude oil. However, the rate is reduced to 4% for oil produced from the following:

- A vertical or horizontal new well, after the appropriate exemption expires.
- A workover well after the exemption expires.
- Incremental oil from a qualifying secondary or tertiary recovery project, after the 5-year or 10-year exemption expires.
- Nonincremental oil from a qualifying secondary recovery project that has reached an average production level of at least 25% over normal operations for six consecutive months.
- Nonincremental oil from a qualifying tertiary recovery project that has reached a production level of at least 15% over normal operations for one month and continues to be operated as a qualifying project.

A qualifying *secondary recovery project* is a unit that uses water flooding and is certified by the North Dakota Industrial Commission. A qualifying *tertiary recovery project* is a unit that uses an enhanced recovery method which conforms with federal tax code provisions and is certified by the North Dakota Industrial Commission.

The oil extraction tax is paid monthly with the gross production tax on a combined reporting form.

## Exemptions

To receive the full benefit of an exemption or the 4% reduced rate, a producer must file the Industrial Commission's certification of well status with the Tax Commissioner within 18 months of the first day of eligibility. If the producer does not file within the 18-month period, then the exemption or reduced rate begins the first day of the month in which the certification is received by the Tax Commissioner.

The exemptions to the oil extraction tax are as follows:

- Royalty interest in oil extracted from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation.
- Oil extracted from a certified stripper well property. A stripper well property is property whose average daily production during a 12-month period did not exceed 10 barrels per day for a well of a depth of 6,000 feet or less, 15 barrels per day for a well of a depth of more than 6,000 feet but not more than 10,000 feet, and 30 barrels per day for a well of a depth of more than 10,000 feet.
- Oil produced during the first 15 months of production from a vertical new well. This exemption is subject to the "trigger" provisions described below.

- Oil produced during the first 24 months of production from a horizontal new well. The exemption is subject to the "trigger" provisions described below.
- Oil produced during the first 60 months of production from either a vertical new well or a horizontal new well drilled and completed on tribal trust land.
- Oil produced from a horizontal reentry well for a period of 9 months beginning on the date the well is recompleted as a horizontal well. The exemption is subject to the "trigger provisions" described below.
- Oil produced from a two-year inactive well for a period of ten years beginning the first day of the month in which the Industrial Commission's certification is received by the Tax Commissioner. The exemption is subject to the "trigger provisions" described below.
- Oil produced from a qualifying well that has been worked over. The exemption is for a 12-month period starting with the first day of the third month after completion of the workover project. A qualifying well is a well that has produced less than 50 barrels per day during the last six months of continuous production before workover. The well operator must notify the Industrial Commission before beginning the project. Project cost must exceed \$65,000 or production must increase 50% or more in the first two months after project completion. The exemption is subject to the "trigger" provisions described below.
- Oil produced from a two-year inactive well for a period of ten years after being recompleted or returned to production. The exemption is subject to the "trigger provisions" described below.
- Incremental oil from a qualifying secondary or tertiary recovery project. The exemption is 5 years for secondary recovery projects and 10 years for tertiary recovery projects from the date the incremental production begins.

## "Trigger" Provisions

The reduced rate provisions for new wells, horizontal wells, horizontal reentry wells, two-year inactive wells, workover wells, and enhanced recovery wells are ineffective if the average price of a barrel of crude oil exceeds the trigger price (thirty-five dollars and fifty cents, as indexed for inflation) for each month in any consecutive five-month period. Except for incremental oil produced from enhanced recovery wells, exemptions for the above wells also become ineffective if the average price of a barrel of crude exceeds the trigger price for the same consecutive five-month period. The reduced rates and exemptions are reinstated if the average price falls below the trigger price for each month in any consecutive five-month period.

Following the statutory guidelines, the Tax Commissioner has determined that the trigger price for calendar year 2004 is \$35.11, and the average prices for the five-month period of May 2004 through September 2004 were:

May	June	July	August	September
\$37.58	\$35.63	\$38.20	\$42.48	\$43.21

Based on these prices, the Tax Commissioner has determined that the tax incentives subject to the trigger price became ineffective for production periods beginning October 1, 2004, and until such time as the statutory provisions for reinstatement are met.

## Distribution of Revenue

Revenue from the oil extraction tax is distributed as follows:

- 60% to the State General Fund.
- 20% divided equally between the Common Schools Trust Fund and Foundation Aid Stabilization Fund.
- 20% to the Southwest Water Pipeline Sinking Fund and to a Resources Trust Fund. Principal and income from the Resources Trust Fund may be expended only pursuant to legislative appropriation and are available for water and certain energy related projects.

## HISTORICAL OVERVIEW

### Oil And Gas Gross Production Tax

#### Significant Changes In Law

**1953 Session.** The gross production tax was imposed at a rate of 4¼% of gross value at the well.

**1957 Session.** The rate was increased from 4¼% to 5% and the revenue distribution formula was adjusted.

**1981 Session.** The revenue distribution formula was amended.

**1983 Session.** Monthly rather than quarterly remittance was required, and the maximum distributions to the counties was increased.

**1985 Session.** Oil reclaimed from tank bottoms and pit oil material has value for tax purposes only if a cash price is paid by the oil reclaimer.

**1989 Session.** The law was changed to specifically state the gross production tax is a real property tax. The revenue distribution formula was amended, effective July 1, 1991 to allocate 33 1/3 % of the first one-fifth portion to the Oil and Gas Impact Grant Fund.

**1991 Session.** The tax on gas was changed from 5% of gross value to an annually adjusted flat rate per mcf. Procedures were provided for determining gross value at the well of oil under arm's length and non-arm's length contracts. The legislature approved the Taxpayer Bill of Rights.

**1993 Session.** The interest accrual period was changed on tax refunds for periods after June 30, 1993. Interest begins to accrue 60 days after the due date of the return, after the return was filed, or after the tax was fully paid, whichever occurs later. Tax from undetermined sources will be allocated between the State General Fund and the county that received the least amount of revenue during the fiscal year.

**1997 Session.** The periods for assessment or refund run from the due date of the original return or the date the original return was filed whichever is later. The Tax Commissioner has two years after an amended return is filed to audit that return and assess any additional tax that is due. The Tax Commissioner has authority to require purchasers to file monthly reports by electronic data interchange or other form of electronic media and can waive the producer's requirement to file a monthly return. Authorized the use of alternative methods for signing, subscribing, or verifying a return filed by electronic means, including telecommunications. A permanent oil tax trust fund was established for the deposit of oil extraction and gross production tax revenues which exceed specific amounts in a biennium.

**1999 Session.** The legislature changed the manner in which unallocated oil and gas gross production taxes collected from unidentified sources is distributed. Previously, the unallocated taxes were distributed to the county with the lowest total gross production tax distribution for the fiscal year. After June 30, 1999, the unallocated taxes will be distributed to each county in the same proportion as total gross production tax allocations for the fiscal year.

## **Oil Extraction Tax**

### **Significant Changes in Law**

**1980 Initiated Measure.** Voters in the 1980 General Election passed an initiated measure creating the 6½% oil extraction tax. The revenue distribution formula was: 45% to the State General Fund, 45% to schools, and 10% to the trust fund. The measure also included an individual income tax energy cost relief credit.

**1981 Session.** The legislature amended the distribution formula.

**1983 Session.** The distribution formula was changed. Filing requirements were changed from a quarterly to a monthly basis.

**1987 Session.** An exemption for the first 15 months of production from a new well (drilled and completed after April 27, 1987) was provided. The rate was reduced from 6½% to 4% for a new well after the 15-month exemption and for production from a qualifying secondary or tertiary recovery project well. These incentives would be eliminated if the average crude oil price is \$33 or more per barrel. The legislature repealed the exemption for private royalty interest and expanded the stripper well definition to allow more marginal wells to qualify for an exemption.

**1989 Session.** A 12-month exemption was provided for production from a qualifying well after completion of a workover project. This incentive is subject to the “trigger.”

**1991 Session.** An exemption was created for incremental oil from a qualifying secondary or tertiary recovery project. A June 30, 1995 sunset was placed on certification of secondary projects. After the expiration of the exempt period, the incremental oil would be eligible for the 4% reduced rate. The reduced rate incentive is subject to the “trigger.” The “trigger” was amended to reinstate the reduced rates and exemptions if the average crude oil price falls below \$33 per barrel.

**1993 Session.** The workover exemption was amended to eliminate the \$30,000 minimum project cost requirement and a 4% reduced rate was adopted for oil produced from wells which receive the workover exemption after June 30, 1993.

**1995 Session.** The stripper well definition was broadened from 20 to 30 barrels per day for wells over 10,000 feet deep. The exemption for a horizontal new well was increased from 15 to 24 months and a 9-month exemption was created for a horizontal reentry well. A 10-year exemption was created for oil from a two-year inactive well. To get the full benefit of an exemption or the 4% reduced rate, producers were given an 18-month period to file the Industrial Commission’s certification of well status with the Tax Commissioner. For secondary recovery projects, the sunset for certification was removed. The revenue distribution formula was changed.

**1997 Session.** A 60-month exemption was created for production from a well drilled and completed on an Indian reservation or on tribal trust land after July 31, 1997. Previous legislation was amended to keep the current distribution factors at the current percentages.

**2001 Session.** The “trigger” provision for exemptions and rate reductions was amended to clarify when the trigger was to become effective. All rate reductions and exemptions subject to the trigger provision become ineffective if the average price of a barrel of crude oil exceeds the trigger price for each month in any consecutive five-month period. The reduced rates and exemptions are reinstated if the average price falls below the trigger price for each month in any consecutive five-month period. Average price is defined as the monthly average of the daily closing price for a barrel of west Texas intermediate Cushing crude oil minus two dollars and fifty cents. Trigger price is defined as thirty-five dollars and fifty cents, as indexed for inflation.

**2003 Session.** An oil and gas research council was created and an oil and gas research fund was established with a continuing appropriation provided. A temporary exemption from gross production tax was provided for gas produced from shallow gas wells with an expiration date of June 30, 2007. The two-year inactive well exemption was amended to clarify the definition of a two-year inactive well and to provide an 18 month provision to qualify the well for an exemption to be consistent with other oil extraction tax exemptions. The work-over well exemption was amended to remove the requirement that a notice of intention must be filed before a work-over project is commenced to qualify for an exemption.

# Oil and Gas Taxes Distribution Formula Changes

## Gross Production Tax

Amount		State		Counties					Maximum County		
		General Fund	Oil & Gas Impact Grant Fund	Total County %	Cities	School Districts	Road and Bridge Fund	General Fund	County Population 3,000 to 6,000		
	Increments								Under 3,000	to 6,000	Over 6,000
1957 Session	First 1/5: .....	100%									
	Remaining 4/5:										
	1st \$200,000 .....	25%		75%	} 15%	45%	40%				
	2nd \$200,000 .....	50%		50%							
	3rd \$400,000 .....	75%		25%							
1981 Session	First 1/5: .....	100% <sup>(1)</sup>									
	Remaining 4/5:										
	1st \$ Million .....	25%		75%	} 20%	35%	45%				
	2nd \$ Million .....	50%		50%							
	Over \$2 Million .....	75%		25%							
1983 Session									\$3.9 M	\$4.1 M	\$4.6 M
1989 Session	First 1/5:	66 2/3% <sup>(3)</sup>	33 1/3% <sup>(2)</sup>								

<sup>(1)</sup> For the 1981-83 biennium only, the legislature provided that up to \$32 million of the 1/5 State General Fund share be distributed to the Highway Tax Distribution Fund and to township road and bridge funds.

<sup>(2)</sup> Up to a maximum of \$5 million per biennium. The remainder is deposited in the State General Fund.

<sup>(3)</sup> Total oil collections to the State general fund are capped at \$71 million per biennium. All revenue in excess of \$71 million is transferred at the end of each biennium to the Permanent Oil Trust Fund.

## Oil Extraction Tax

	State General Fund	Education Funds	Water Pipeline & Trust Fund
1980 Measure #6	45%	45%	10%
1981 Session	30%	60%	10%
1983 Session	90%	10%	
1995 Session:			
FY 1996 and 1997	60%	20%	20%
After FY 1997	70%	20%	10%
1997 Session:			
After FY 1997	60% <sup>(1)</sup>	20%	20%

<sup>(1)</sup> Total oil collections to the State general fund are capped at \$71 million per biennium. All revenue in excess of \$71 million is transferred at the end of each biennium to the Permanent Oil Trust Fund.

## Oil and Gas Gross Production Tax Revenue

<u>Fiscal Year</u>	<u>Total Net Collections</u>	<u>State General Fund</u>
1994	22,118,770	11,541,422
1995	23,787,276	12,019,079
1996	26,905,996	13,550,184
1997	34,772,117	19,054,995
1998	29,521,309	15,744,740
1999	22,705,995	11,228,673
2000	38,041,008	21,062,999
2001	46,029,027	17,370,366
2002	36,515,072	20,530,727
2003	43,477,533	24,985,793
2004	47,519,075	28,256,440
2005 est.	52,502,000	26,735,000

SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections

## Oil Extraction Tax Revenue

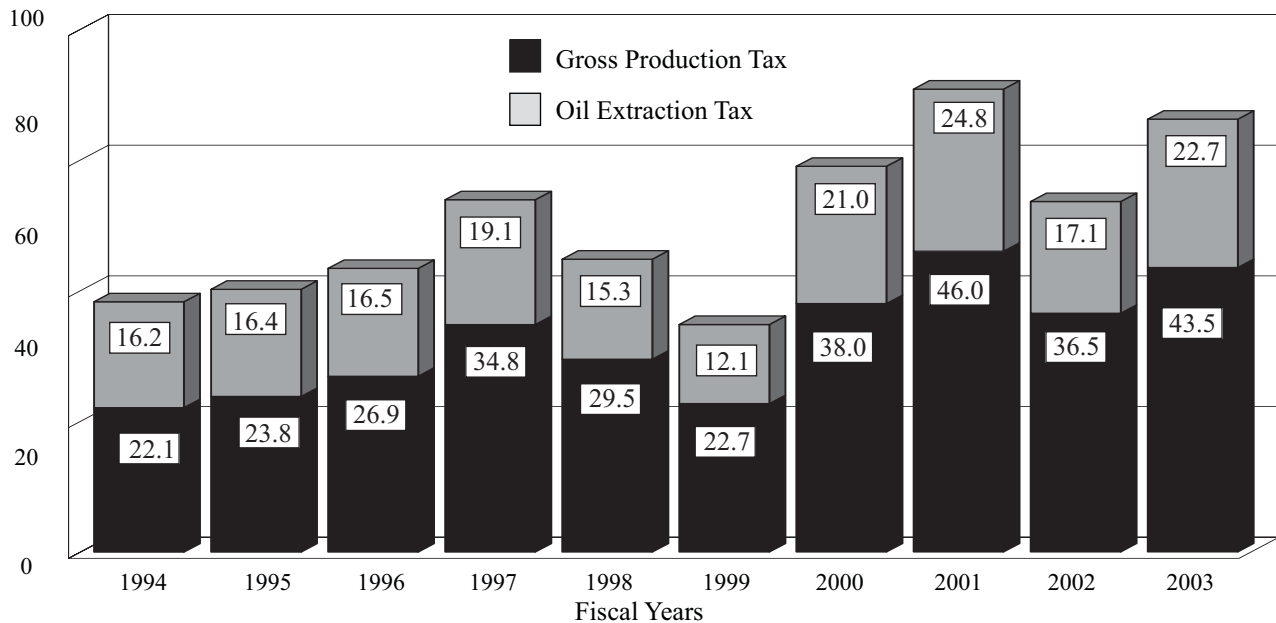
<u>Fiscal Year</u>	<u>Total Net Collections</u>	<u>State General Fund</u>
1994	16,218,450	14,586,537
1995	16,354,433	14,741,648
1996	16,467,484	10,446,662
1997	19,079,936	11,540,993
1998	15,328,212	9,373,218
1999	12,074,588	7,329,895
2000	21,023,977	12,321,301
2001	24,793,997	10,853,065
2002	17,068,846	10,466,737
2003	22,618,069	13,587,968
2004	25,638,914	15,291,025
2005 est.	29,064,000	17,638,000

SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections



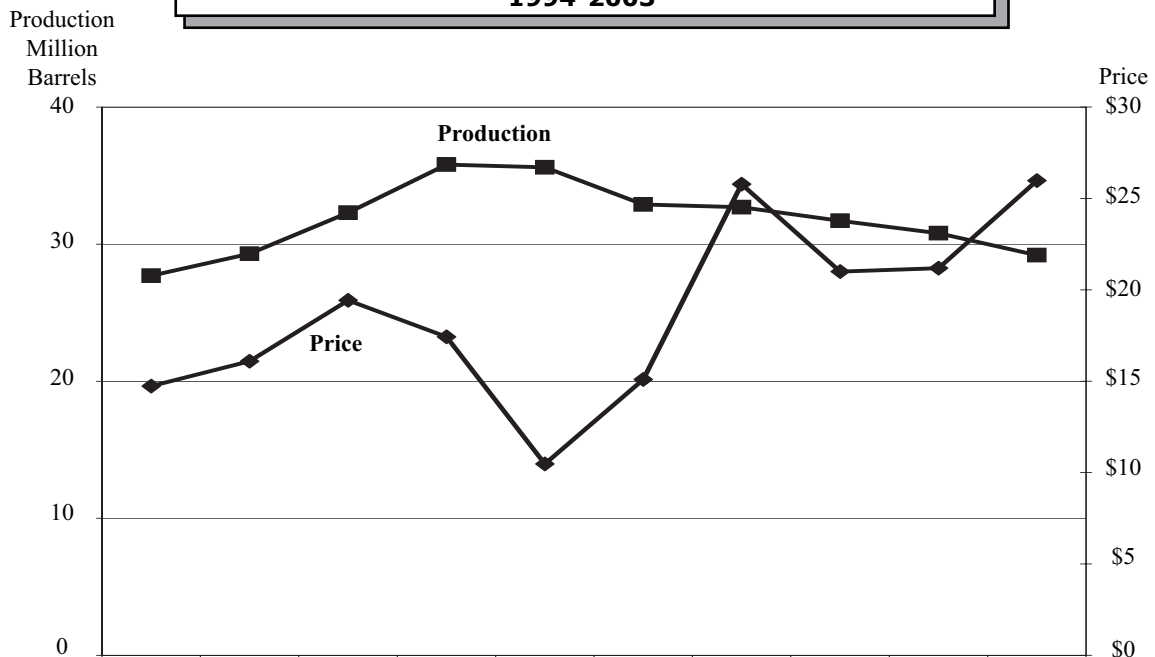
## Trends in Oil and Gas Tax Collections

Millions  
of Dollars



SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections.

## North Dakota Oil Statistics Monthly Production and Tesoro Field Price for Sweet Crude 1994-2003



Calendar Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Price ◆	14.73	16.09	19.42	17.43	10.47	15.09	25.78	21.00	21.18	25.97
Production ■	27.7	29.3	32.3	35.8	35.6	32.9	32.7	31.7	30.8	29.2

# Oil Taxes in the 14 Major Oil Producing States

## June 2004

State	Severance or Gross Production Tax Rate	Local Ad Valorem Taxes Effective Rate	Misc. Taxes	Total Taxes	Annual Production (Million Barrels)		
					1998	2000	2002
Alaska <sup>(1)</sup>	0% to 15.0%	*		0% - 15.0%	451.2	355.2	359.3
California		1%		1%	285.0	271.1	258
Colorado <sup>(7)</sup>	2% to 5%	4% to 10%	0.14%	7.14%	22.5	18.5	17.7
Kansas <sup>(5)</sup>	4.33%	3.67%		8%	36.1	34.5	32.7
Louisiana	3.125% to 12.5%	*		3.125% - 12.5%	92.7	105.4	93.5
Michigan	4% to 6.6%	*		6.6%	4.4	7.9	7.2
Mississippi	0% to 6.0%	*		0% - 6.0%	21.3	19.8	18
Montana <sup>(2)</sup>	0.76% to 15.06%			0.76% - 15.06%	16.6	15.4	16.9
New Mexico	0% to 3.75%	1.18%	3.34%	4.52% - 8.27%	69.3	67.2	67
NORTH DAKOTA <sup>(4)</sup>	5.0%, 9.0%, or 11.5%	*		5% - 11.5%	35.6	32.7	31
Oklahoma	0% to 7.0%	*		7%	78.6	70.0	66.6
Texas <sup>(3)</sup>	0% to 4.6%	4% to 5%	½ cent per bbl.	4.0% - 10.% plus ½ cent per bbl.	458.7	443.4	412
Utah <sup>(3)(6)</sup>	0%, 3.0% or 5.0%	4% to 5%	0.2%	0% - 5%% + ad valorem (4%-5%)	19.2	15.6	13.7
Wyoming	2% to 6.0%	6.7%		8.7% - 12.7%	52.7	60.7	54.7

\* Severance (or gross production) tax is in lieu of local property taxes on the oil.

- <sup>(1)</sup> Alaska's nominal rate of 15.0% (12.25% for the first five years for new fields) is reduced for each field by an "economic limit factor" determined by the field's total average daily production and its average daily production per well. Lower production fields have lower rates.
- <sup>(2)</sup> Montana's tax rates vary based on the type of well, when the well was drilled, and whether the taxpayer has a working or non-working interest. A portion of the production tax is allocated back to local governments in lieu of property taxes.
- <sup>(3)</sup> Texas and Utah have property taxes on oil properties but it was not possible for local authorities to estimate an effective percentage rate.
- <sup>(4)</sup> North Dakota, has a gross production tax rate of 5% with no exemptions and oil extraction tax rates of 0.0%, 4.0% and 6.5%.
- <sup>(5)</sup> Kansas has an 8.0% severance tax but allows a credit of up to 3.67% for property taxes paid on oil properties. The severance tax is based on value. Actual rate paid after credit is 4.33%.
- <sup>(6)</sup> Utah's severance tax is 3% on the first \$13 per barrel and 5% on any amount over \$13 per barrel.
- <sup>(7)</sup> Colorado has a 2% to 5% severance tax but allows 87½% of local property taxes as a credit against the tax. Since property taxes average about 7% this credit generally eliminates the severance tax liability.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Oil and Gas Section, June 2004.  
Interstate Oil and Gas Compact Commission and the Dept. of Energy.

## OIL TAXES IN OTHER STATES

### **Alaska**

Alaska's nominal oil severance tax rate is 15%. Each field, however, has what is termed an "Economic Limit Factor" (ELF) which is determined as follows:

$$(1 - [\text{PEL}/\text{TP}]) \exp ([150,000/\text{TP}/\text{Days}]) \exp [460 \times \text{WD}]/\text{PEL}]$$

where:

PEL = the monthly production rate at the economic limit;  
TP = the total production during the month for which the tax is to be paid;  
WD = the total number of well days in the month for which tax is to be paid;  
Days = the number of days in the month for which the tax is to be paid; and  
exp = exponent.

The ELF is taken times 15% to determine the effective percentage applied to the production value from the field. For example, a field with an average total daily field production of 100,000 barrels and an average daily production of 1,200 barrels per well would have an ELF of .75<sup>1.862</sup> and an effective severance tax rate of 8.78%.

A minimum tax of 80¢ per barrel on API 27° oil times the ELF can come into play in times when the price is very low. It is adjusted for each degree difference by \$.005/bbl.

**Incentives.** For the first five years of commercial production, the effective rate is determined by taking the ELF times a nominal rate of 12.25% rather than 15%. Currently, the average nominal rate for oil produced on the North Slope is 14.3% with an average ELF of 0.63, yielding an average effective rate of about 8.98%.

Oil reserves are not subject to ad valorem property taxes in Alaska. Effective in 1994, producers are subject to two separate surcharges of 2¢ and 3¢ per barrel. The 2¢ surcharge was suspended in April 1995, when the conservation fund it supports reached \$50 million. The 2¢ surcharge will be reimposed when the fund drops below \$50 million.

### **California**

California levies ad valorem taxes on real property, including mineral properties. Values are determined and assessed at the county governmental level. The statutory tax rate is 1%, but is subject to increases based on needs to retire voter approved debt. In fiscal year 2000-2001 the rate varied from 1.000 to 1.166 percent. Values are based on an adjusted acquisition value or the current market value, which ever is lower. Adjustments to acquisition value are made for depletion and increases in reserves and added or removed improvements.

There are no statewide severance taxes levied in California. Some local municipalities levee a severance tax. A nominal per barrel fee is collected to fund the Department of Conservation, Division of Oil, Gas & Geothermal Resources. For fiscal year 2002-2003 the fee was \$0.0421689 per barrel of oil or ten thousand cubic feet of gas.

### **Colorado**

Colorado has a 2% to 5% severance tax but allows 87.5% of local property taxes as a credit against the tax. Since property taxes average about 7%, this credit generally eliminates the severance tax liability.

A conservation tax of 0.14% is administered by the Oil and Gas Conservation Commission.

### **Kansas**

Kansas levies an 8% value-based severance tax but all oil properties receive a 3.67% credit for property taxes paid. The net severance tax rate for all taxable production is 4.33%. "Minimum production" (stripper) wells are exempt but eligibility is based on the depth of the well and the spot price of crude oil. Effective May 1, 2000, wells under 2,000 feet must have five barrels per day of production or less, while deeper wells may have six barrels per day or less, depending on the price. (If the well is using waterflood, the required barrels per day are adjusted to six and seven, respectively.) Stripper status is granted to wells with higher daily production in times of lower price. All tertiary recovery oil is eligible for an exemption.

Kansas also levies a volume-based 5.47% conservation fee administered by the Kansas Corporate Commission.

**Incentives.** A “new pool” incentive provision exempts oil from newly discovered pools for a period ending two years after the pool was discovered.

A tax exemption is also available for wells that have completed production enhancement projects or were new discoveries using three-dimensional seismic studies. The tax exemption is good for 7 years but is dependent on the price of oil in the previous calendar year.

**Louisiana**

A 12.5% severance tax is levied in lieu of all other taxes, including ad valorem taxes, on the oil and condensate production. Stripper wells (those with production of 10 barrels per day or less) are taxed at 3.125%, while “incapable” wells (those producing between 10 and 25 barrels per day and having at least a 50% S & W) are taxed at 6.25%. Tertiary recovery wells are exempt from severance tax until the tertiary project reaches payout.

Louisiana also levies an “oil field site restoration fee” of 1¢ per barrel. The fee is reduced to 0.5¢ per barrel for incapable wells and 0.25¢ per barrel for stripper wells.

An "oil spill contingency fee" of 2¢ per barrel is levied on crude oil loaded or off loaded at a marine terminal facility in Louisiana waters. This fee is collected and remitted by the marine terminal operator.

**Incentives.** Oil production from certified deep wells and horizontal wells is exempt from severance tax for a period of two years or until payout of well costs, whichever occurs first. Oil production from certified wells is exempt for any month in which the gross value is below \$20 per barrel.

**Michigan**

Michigan levies a severance tax of 6.6% on oil and 5.5% on gas based on the gross cash market at the place where production was severed from the soil. Michigan also levies an oil and gas maintenance fee that is used for monitoring wells. This fee changes from year to year and is .34% for fiscal year ending September 30, 2002.

**Incentives.** Michigan offers a reduced rate of 4% for oil produced from stripper wells and marginal properties.

**Mississippi**

Mississippi levies a 6% severance tax on the value of production at the mouth of the well. A maintenance tax of 4.4¢ per barrel is administered by the Oil & Gas Board.

**Incentives.** Beginning April 1, 1994, wells that use an approved Enhanced Oil Recovery method receive a 3% reduced rate.

**Montana**

Tax rates vary by type of production, by the date the well was drilled, and for working interests and non-working interests. The following is a summary of the tax rates effective January 2, 2000.

	Working Interest	Non-Working Interest
• <u>Primary Recovery Production</u>		
First 12 months	0.76%	15.06%
Pre-1999 Well	12.76%	15.06%
Post-1999 Well	9.26%	15.06%
• <u>Stripper Production</u> <sup>(1)</sup>		
Pre-1999 Wells		
First 1-10 barrels	5.76%	15.06%
Over 10 barrels	9.26%	15.06%
Stripper well exemption	0.76%	15.06%
• <u>Horizontally Drilled Wells</u>		
First 18 months	0.76%	15.06%
Pre-1999 after 18 months	12.76%	15.06%
Post-1999 after 18 months	9.26%	15.06%
• <u>Incremental Production</u> <sup>(2)</sup>		
Secondary Production	8.76%	15.06%
Tertiary Production	6.06%	15.06%
* <u>Horizontally Recompleted</u>		
First 18 months	5.76%	15.06%
Pre-1999 after 18 months	12.76%	15.06%
Post-1999 after 18 months	9.26%	15.06%

<sup>(1)</sup> Stripper oil is oil produced from any well that produced less than 10 barrels a day for the calendar year immediately preceding the current year.

<sup>(2)</sup> This is the volume of oil in excess of the production decline curve as approved by the Board of Oil and Gas Conservation.

## New Mexico

New Mexico levies four tax types on the value of oil. An intergovernmental production tax credit of 75% of the lesser of the state tax rate or the Native American tax rate on the value of new production severed within the boundaries of Native American tribal land is given to each tax type.

**Severance Tax:** 3.75% of value of oil. Incentives include 1.875% on qualified enhanced recovery projects, 2.45% on qualified workover wells, and variable rates on stripper properties. A 10-year exemption is given to qualified production restoration projects.

Most of the incentives (well workover, production restoration, and enhanced oil recovery) are tied to posted prices of WTI crude and subject to an exemption sunset based on a statutory price threshold. These incentives have now been subjected to the sunset provisions through April 2005. Similarly, the stripper incentive has been subject to the statutory sunset provisions based on reported prices since 2001 and currently the incentive will not apply until at least April 2005.

**Emergency School Tax:** 3.15% of value of oil with variable rates on stripper properties.

**Conservation Tax:** 0.19% of the value of oil.

**Ad Valorem Production Tax:** Rates vary and are established by producing counties and school districts and are effective each September.

## Oklahoma

Oklahoma levies a 7% gross production tax that is in lieu of ad valorem taxes. Oklahoma also collects a 0.2¢ per barrel “marginal well fee” and a 2¢ per barrel “education and marketing fee” which are used for the benefit of the industry and are refundable upon request.

**Incentives.** Incremental production from secondary or tertiary recovery is exempt from the 7% tax until the project has paid for itself. “Horizontal wells” that began production between July 1, 1990 and July 1, 1994 are exempt for two years or until payout.

Any lease operated at a net loss or net profit which is less than the total gross production tax remitted for that lease during the previous tax reporting year is considered an “economically at-risk oil lease.” An oil lease that qualifies

for certification of an “economically at-risk oil lease” is eligible for an exemption equaling six-sevenths (6/7) of the gross production tax levied on the lease during the previous calendar year. These gross production tax exemptions are limited to production from calendar years 1997, 1998, and 1999.

## Texas

Texas levies a 4.6% severance tax on the value of oil produced. This tax is reduced to 2.3% or to 0.00% if the oil qualifies for certain tax incentives. Oil properties in Texas are also subject to normal property taxes and to a 3/16 of a cent per barrel “regulatory tax,” as well as a regulatory fee of 5/16 of a cent (\$0.003125) per barrel for report periods prior to September 2001 and 5/8 of a cent (\$0.00625) per barrel for report periods September 2001 and later.

**Incentives.** Oil produced from Enhanced Oil Recovery (EOR) projects is taxed at 2.3% of the market value. Oil produced from well bores certified by the Texas Railroad Commission as 2-year or 3-year inactive well bores is exempt from the tax for 10 years. Wells that produce an average of 7 or less barrels of oil equivalent (BOE) a day are eligible for an exemption if the operator implements incremental production procedures to increase the production. The production procedure could be primary, secondary, or tertiary methods. If a primary production technique is used, it must involve an expenditure of at least \$5,000. The incremental production is taxed at 2.3% for 5 years. The exemption is active as long as the price of oil, according to Comptroller records remains below \$25 per barrel (adjusted to 1997 dollars). Baseline production is taxed at 4.6% of market value. The exemption is suspended if the price reaches \$25 or above for three consecutive months and will be reinstated if the adjusted price falls below \$25 per barrel for three consecutive months. Oil from Co-Production projects is taxed at 2.3% of market value. Oil produced from wells certified under the Texas Experimental Research and Recovery Activity (TERRA) program is exempt from the tax.

## Utah

Utah levies a severance tax of 3% on the first \$13 per barrel and 5% on any amount over \$13 per barrel. This tax is in addition to a normal ad valorem tax on the reserves and a 0.2% conservation tax. Stripper wells, defined as wells that produce 20 barrels per day or less, are exempt from the severance tax.

**Incentives.** Utah allows an annual exemption of \$50,000. In addition, the first six months' production from any new development well and the first 12 months' production from any new development well and the first 12 months' production from any new wildcat well are exempt from the tax. All transportation and processing costs can be deducted from value to determine taxable value. There is a 50% tax rate reduction on incremental production achieved from any enhanced recovery project. New workover or recompletion projects receive a 20% tax credit, up to \$30,000 per well.

## Wyoming

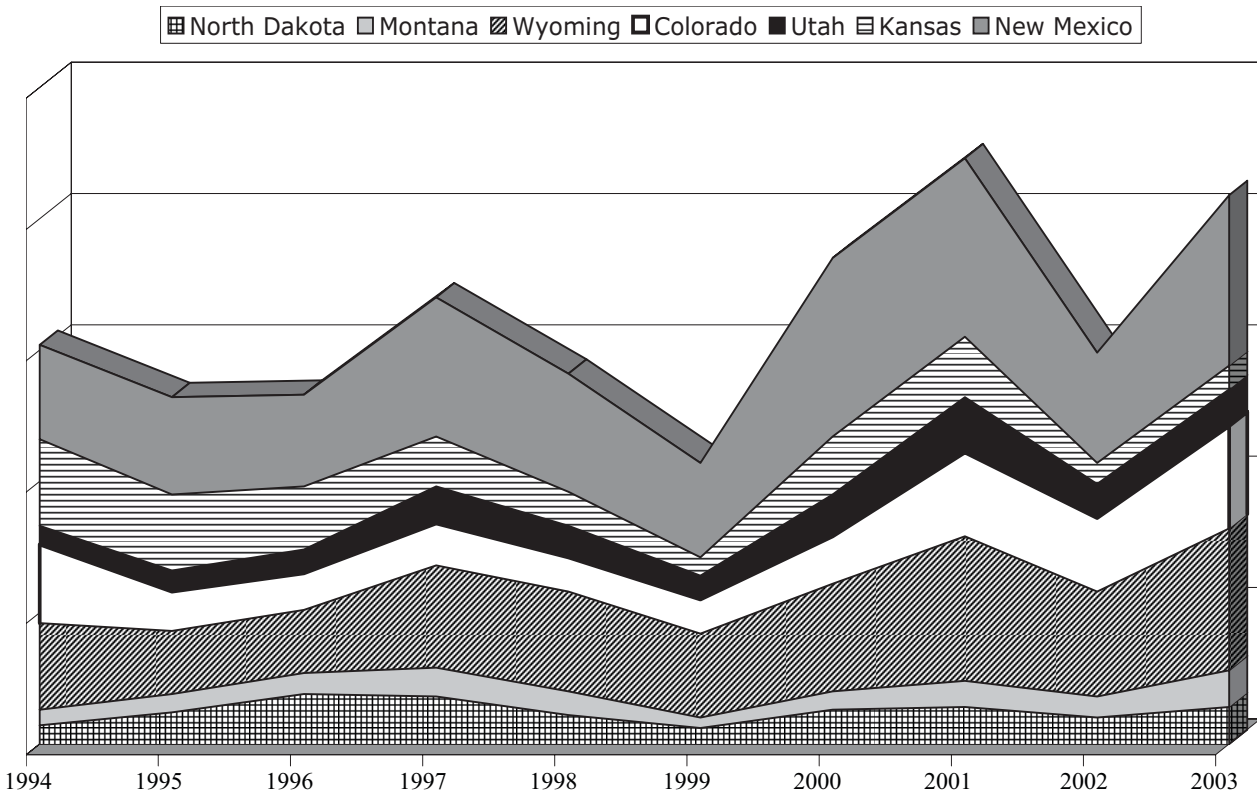
A severance tax is levied at 6% of the value of the oil produced. Stripper wells and tertiary recovery projects are eligible for a reduced tax rate of 4%. For tertiary projects, the reduced rate is good for five years and applies to production over an established "base level."

An ad valorem tax is levied on the same value as that used for severance tax purposes but is collected by the counties and based on the applicable local mill rates. Currently, the ad valorem taxes average about 6.7% of the value of the oil produced.

**Incentives.** Wyoming grants the reduced rate of 2% on the first 60 barrels per day from new wells for 24 months and all incremental oil from workovers and recompletions. New wells must be drilled between July 1, 1993 and March 31, 2003. Workovers or recompletions must be performed between July 1, 1993 and March 31, 2001. In the case of new oil wells, the incentive is canceled if the average price of oil is equal to or exceeds \$22 per barrel for the preceding six (6) month period of time.

Oil produced from previously shut in wells is subject to a reduced severance tax rate of 1.5% for five years from the date of first renewed production. Wells must have had no production for two years prior to January 1, 1995. This incentive is canceled if the average price of oil exceeds \$25 per barrel for six straight months.

## Western Oil and Gas Producing States Average Annual Rig Activity



SOURCE: Hughes rig count (annual average). These states have similar geographical formations and similar technologies are used in oil production.



# COAL TAXES

## Coal Severance Tax

### CURRENT LAW

#### Imposition, Rate and Administration

The coal severance tax is imposed on the act of removing coal from the earth. The tax is in lieu of both the sales and use taxes on coal and the property tax on minerals in the earth. The coal severance tax applies to all coal severed for sale or industrial purposes, except: coal used for heating buildings in the state, coal used by the state or any political subdivision of the state, and coal used in agricultural processing and sugar beet refining plants in the state or adjacent states.

The tax is applied at a flat rate of 37.5 cents per ton. An additional 2-cent per ton tax is levied for the Lignite Research Fund.

A 50% reduction in the 37.5-cent tax is allowed for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

Counties may grant a partial or complete exemption from the counties' 70% portion of the 37.5-cent tax for coal that is shipped out of state.

Payments of the tax are made monthly by the owner or operator of the mine.

#### Distribution of Revenue

Revenue from the 37.5-cent per ton severance tax is deposited in the Coal Development Fund and is distributed as follows:

- 30% to a permanent, constitutional trust fund administered by the Board of University and School Lands. The trust fund is used to supply loans to school districts for school construction and loans to cities, counties and school districts impacted by coal development. Investment income from the trust fund is first used to replace uncollectible loans made from the fund, and the balance is deposited in the State General Fund. Seventy percent of the tax collected and deposited in the permanent trust fund must be deposited in the lignite research fund.

- 70% among the coal producing counties according to the amount of coal each county produces. Revenue allotted to each county is further apportioned as follows: 40% to the county general fund; 30% to the cities within the county; and 30% to the school districts. Also, a nonproducing county within 15 miles of a currently active coal mine, and a city or school district in that county and within 15 miles of the mine, are entitled to a share of the coal producing county's severance tax revenue from that particular mine. The amount of coal production on which a county has to share its severance tax revenue with another county during a calendar year is limited to 3,400,000 tons.

Revenue from the additional 2-cent per ton tax is deposited into the Lignite Research Fund.

### HISTORICAL OVERVIEW

#### Significant Changes in Law

**1975 Session.** The legislature first enacted the severance tax on coal mined in the state at a base rate of 50 cents per ton and increasing 1 cent per ton for each three-point increase in the Wholesale Price Index. The revenue distribution formula during the 1975-77 biennium was as follows: 30% to the State General Fund, 30% to a special trust fund administered by the State Land Board, 35% to a special fund for grants to impacted political subdivisions, and 5% to coal producing counties.

**1977 Session.** The rate was amended to 65 cents per ton and the escalator clause was modified increasing the rate 1 cent per ton for every one-point increase in the Wholesale Price Index (Producer Price Index). This change resulted in an increase in the rate from 56 cents per ton to 65 cents per ton, effective July 1, 1977. The share of revenue allocated to coal producing counties was increased from 5% to 20%, while the portion allocated to the trust fund was decreased from 30% to 15%. The State General Fund share remained 30% and the allocation for grants to impacted political subdivisions remained 35%.

**1979 Session.** The base rate became 85 cents per ton and the escalator was amended to provide for a 1-cent increase for every four-point increase in the Wholesale Price Index (Producer Price Index). This modification resulted in a reduction in the coal severance tax from 97 cents per ton to 85 cents per ton.

**1981 Session.** Exemptions were created for coal used by the state or any of its political subdivisions and for coal used for heating buildings within the state. As a result, coal used for heating purposes became subject to sales tax.

**1983 Session.** Filing requirements for coal mine owners or operators were changed from a quarterly to a monthly basis.

**1985 Session.** An exemption was created for coal used in agricultural processing or sugar beet refining plants within North Dakota or in adjacent states. A 50% reduction in the tax rate was created for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

**1987 Session.** The base rate was reduced to 75 cents per ton and the escalator clause was eliminated. Prior to the change, the escalator had resulted in a rate of \$1.04 per ton. In addition, for the period July 1, 1987, through June 30, 1989, the legislature enacted an additional tax of 2 cents per ton and dedicated the revenue for lignite research. Distribution of the 75 cent tax was changed as follows: the State General Fund portion was increased from 30% to 50%, the counties' share was increased from 20% to 35%, the trust fund allocation remained at 15%, and the 35% share previously allocated for grants to impacted political subdivisions was eliminated.

**1989 Session.** The 2-cent per ton tax for lignite research was made a permanent tax.

**1990 Constitutional Amendment.** Voters in the Primary Election approved a constitutional amendment placed on the ballot by the legislature to allow up to 50% of the taxes collected and deposited in the trust fund during a biennium to be appropriated by the legislature for lignite research, development and marketing.

**1991 Session.** The legislature provided for 50% of the taxes collected and deposited in the trust fund to be appropriated by the legislature for lignite research, development and marketing, in accordance with the 1990 constitutional amendment.

**1993 Session.** The legislature limited the amount of coal production on which a coal producing county has to share its severance tax with a nearby nonproducing county. Loans for school construction was added to uses of the trust fund. Coal which is shipped out of state after June 30, 1995 and before July 1, 2000 was made exempt from the state's 50% portion; counties may grant a partial or complete exemption from the county's 35% portion.

**1994 Constitutional Amendment.** Voters in the Primary Election approved a constitutional amendment placed on the ballot by the legislature to allow appropriations from the trust fund for clean coal demonstration projects approved by the North Dakota Industrial Commission and the United States Department of Energy. [The Department of Energy did not approve a clean coal demonstration project in North Dakota.]

**1995 Session.** The legislature increased, from 50% to 70%, the amount of the taxes collected and deposited in the trust fund during a biennium to be appropriated by the legislature for lignite research, development and marketing.

**1997 Session.** Effective July 1, 1999, the legislature exempted coal burned in coal-fired boilers within North Dakota or adjacent states in which the generation station has a total capacity of not more than 210 megawatts from 50% of the 75-cent coal severance tax. A city, school district, or the county commissioners of the county in which the coal is mined may grant a partial or complete exemption from their share of severance tax revenues. A political subdivision that has granted an exemption from all or part of its share of severance tax revenues must be omitted from the allocation or have its allocation adjusted to reflect the reduction it has granted.

**1999 Session.** The legislature repealed the exemption for coal burned in small boilers, effective July 1, 2003.

**2001 Session.** The legislature reduced the 75-cent tax to 37.5 cents per ton and repealed the exemption for coal burned in small boilers effective July 1, 2001. Distribution of the 37.5-cent tax was changed to allocate 30 percent to the coal development trust fund and 70 percent to the counties. A county may grant a full or partial exemption from its 70 percent share for coal shipped out of state.

# TAXATION OF COAL IN NEIGHBORING STATES

## Montana

Montana levies the following taxes on surface mined coal:

- **Coal Gross Proceeds Tax**

A statewide 5% yearly flat tax is imposed on coal gross proceeds. The gross proceeds of coal is determined by multiplying the number of tons produced by the contract sales price. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation. This tax is collected at the county level.

- **Coal Severance Tax**

Imposed on all coal mined in the state. Producers of over 50,000 tons of coal per year pay a quarterly severance tax on all production in excess of 20,000 tons. Producers of under 50,000 tons per year are exempt from the tax. The first 2 million tons of coal produced as "feedstock" for a coal enhancement facility is exempt.

Tax rates depend on the heat content (BTU's per pound) of the coal and the method of extraction. The value of coal to which the severance tax is applied is the contract sales price. Current tax rates:

### **Surface Mined Coal**

Under 7,000 BTU's    10% of value  
7,000 BTU's and over   15% of value

**Incentives.** Persons producing less than 50,000 tons of coal in a year are exempt from severance tax. Persons producing more than 50,000 tons of coal in a year are exempt from severance tax on the first 20,000 tons produced. A person is not liable for any severance tax upon the first 2,000,000 tons of coal produced as feedstock for an approved coal enhancement facility. This exemption terminates December 31, 2005. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation under the gross proceeds tax.

## Wyoming

Wyoming levies the following taxes on surfaced mined coal:

- A severance tax of 7% of the mine mouth value to a maximum of \$.60 per ton. This is a lower base than is used in Montana because Wyoming allows deductions for costs, such as crushing and transportation to market, that occur after the coal has been brought to the mouth of the mine.
- A "gross products tax." It is based on the same taxable value as that used for severance tax purposes but is collected by the counties and based on applicable local mill rates. Most coal is subject to ad valorem tax of 6% but some is subject to 7.5%.

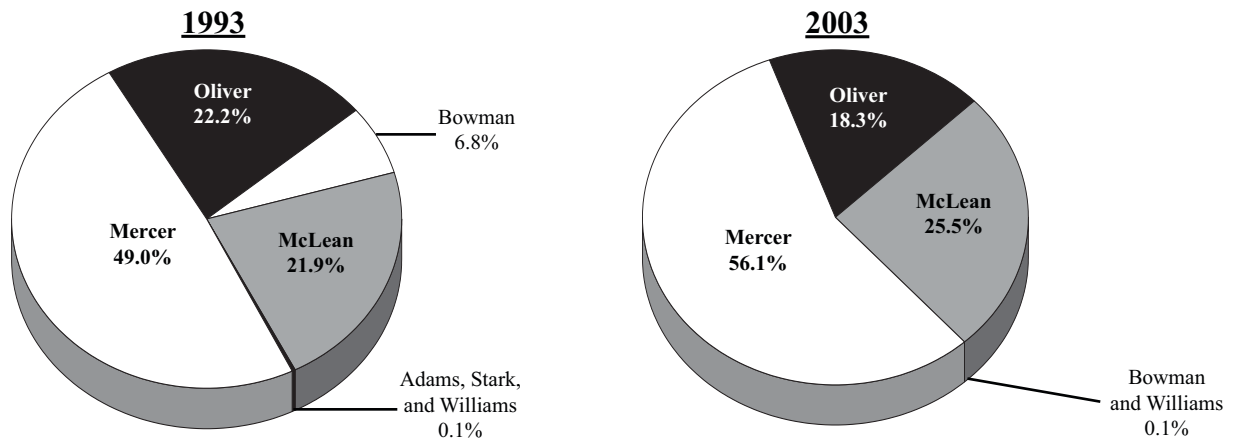
**Incentives.** A maximum severance tax rate of 60 cents per ton applies on qualifying coal sales agreements. The cap on coal severance tax only applies to a few coal contracts, because most producers pay less than 60 cents at surface coal mines.

## Coal Severance Tax Collections and Distribution

<u>Fiscal Year</u>	<u>Total Collections</u>	<u>State General Fund</u>	<u>Land Board Trust Fund</u>	<u>Counties</u>	<u>Lignite Research</u>
1994	24,558,597	11,960,356	3,588,107	8,372,249	637,886
1995	24,369,347	11,868,189	3,560,457	8,307,732	632,970
1996	22,854,955	11,129,554	3,338,866	7,790,688	595,847
1997	22,915,612	11,160,152	3,348,046	7,812,107	595,307
1998	22,725,858	11,865,647	3,320,946	7,748,874	590,390
1999	23,582,059	11,482,232	3,446,153	8,041,024	612,649
2000	23,572,353	11,206,459	3,521,932	8,217,841	626,121
2001	23,095,487	10,967,395	3,454,203	8,059,808	614,081
2002	12,850,893	775,794	3,439,110	8,024,591	611,397
2003	12,202,063	0	3,475,271	8,108,966	617,826
2004	12,450,642	0	3,546,069	8,274,161	630,412
2005 est.	12,500,000	0	3,560,000	8,307,000	633,000

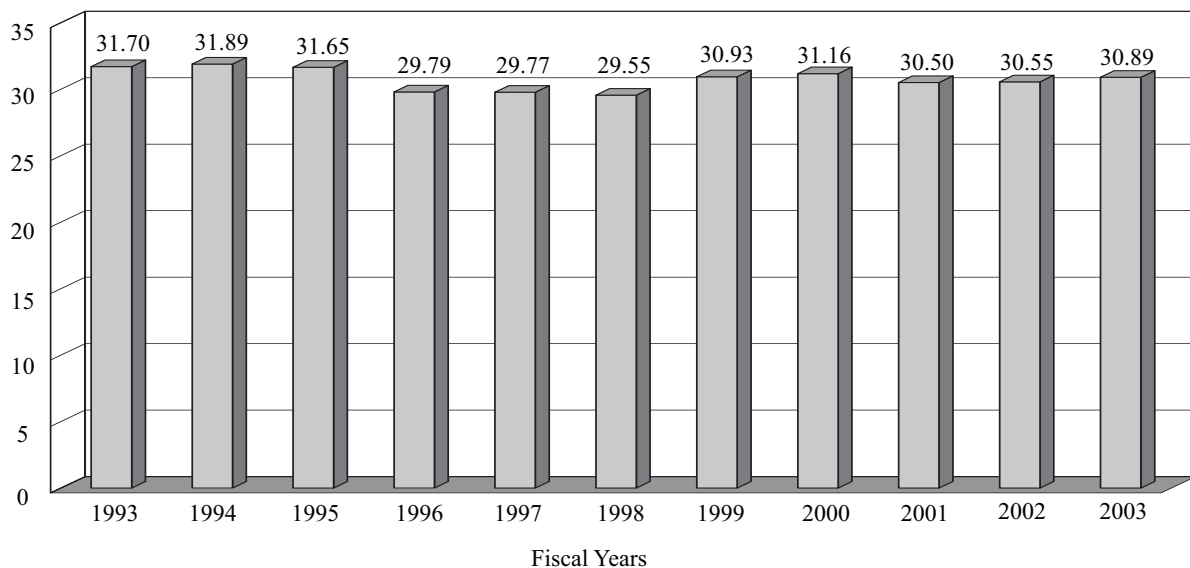
SOURCE: North Dakota Office of State Tax Commissioner and State Treasurer's Office

## County Breakdown - Coal Severance Tax Revenue Fiscal Years 1993 and 2003



Million  
Tons

## North Dakota Taxable Coal Production



# Coal Conversion Tax

## CURRENT LAW

### Imposition, Rate and Administration

The coal conversion facilities privilege tax is imposed on the operator of a coal conversion facility for the privilege of producing electricity or other products from coal conversion plants. A coal conversion facility is defined as (1) an electrical generating plant which has at least one unit with a generating capacity of 10,000 kilowatts or more of electricity, (2) a plant other than an electrical generating plant which processes or converts coal and uses or is designed to use over 500,000 tons of coal per year, or (3) a coal beneficiation plant.

The coal conversion tax is in lieu of property taxes on the plant itself, while the land on which the plant is located remains subject to property tax. The tax is paid monthly.

**Electrical Generating Plants.** Electrical generating plants, as defined above, are subject to two separate levies. One levy is .65 mill times 60% of installed capacity times the number of hours in the taxable period and the other levy is .25 mill per kwh of electricity produced for sale. Installed capacity means the rating shown on the nameplate assigned to the turbine of the power unit.

**Other Coal Conversion Plants.** A *coal gasification plant* is subject to a monthly tax measured by 13.5 cents per thousand cubic feet of gas produced for sale or 4.1% of gross receipts, whichever is greater. *Plants converting coal to products other than gas* are taxed at 4.1% of gross receipts. The tax rate for a *coal beneficiation plant* is 20 cents per ton of beneficiated coal produced for sale or 1¼% of gross receipts, whichever is greater.

### Exemptions

Exemptions to the coal conversion tax are as follows:

- Synthetic natural gas produced in excess of 110 million cubic feet per day.
- Income from byproducts of a coal gasification plant to a maximum of 20% of gross receipts.
- Revenue derived from the sale and transportation of carbon dioxide for use in the enhanced recovery of oil or natural gas.

- Beneficiated coal produced in excess of 80% of plant design capacity.
- A new coal-burning electrical generating plant is exempt from the State General Fund portion of both levies for five years. The county may grant an exemption for up to five years from the county's 15% share of the levy on installed capacity.
- All new coal conversion plants other than electrical generating plants are exempt from the State General Fund portion (85%) of the tax for five years. The county may grant a partial or complete exemption from the county's 15% share for up to five years.

### Distribution of Revenue

**Electrical Generating Plants.** The revenue from the .25 mill levy on production is deposited in the State General Fund. The revenue from the .65 mill levy on installed capacity is distributed as follows:

- 85% to the State General Fund.
- 15% to the county in which the plant is located. The amount distributed to each county is apportioned as follows: 40% is deposited in the county general fund; 30% is divided among all incorporated cities in the county according to population; and 30% is divided among all school districts in the county on the basis of average daily membership.

**Other Coal Conversion Plants.** Through December 31, 2009, the first \$41,666.67 of revenue each month is deposited in the State General Fund. The remaining revenue is distributed as follows:

- 85% to the State General Fund.
- 15% to the county in which the plant is located. The amount distributed to each county is apportioned as follows: 40% is deposited in the county general fund; 30% is divided among all incorporated cities in the county according to population; and 30% is divided among all school districts in the county on the basis of average daily membership.



# HISTORICAL OVERVIEW

## Significant Changes in Law

**1975 Session.** The legislature enacted the privilege tax on coal conversion facilities. The conversion tax on electrical generating plants was levied at ¼ mill per kwh produced for sale. The tax on all other coal conversion facilities was levied at 2½% of gross receipts or 10 cents per mcf, whichever was greater. The formula for allocation of conversion tax revenue was dependent on the amount of revenue generated from each county. As revenue from a county increased, the percentage distributed to the State General Fund increased and the percentage distributed to the county decreased. The county share was apportioned as follows: 40% to the county, 15% to cities, and 45% to school districts.

**1977 Session.** The revenue distribution formula was changed to 65% to the State General Fund and 35% to the county. The allocation of the county share was changed to 40% to the county, 30% to cities, and 30% to school districts.

**1983 Session.** An additional ¼ mill per kwh tax rate for electrical plants was enacted. This change brought the tax on electrical generating plants to ½ mill per kwh. The revenue from the ¼ mill increase was dedicated entirely to the State General Fund. In addition, the legislature changed filing requirements to a monthly rather than quarterly basis.

**1985 Session.** The tax rate on coal gasification plants constructed before July 1, 1985 was changed from 10 cents to 15 cents per thousand cubic feet of gas produced for sale, or 2½% of gross receipts, whichever is greater. The definition of gross receipts was changed to exclude any financial assistance from the federal government. A five-year exemption from part or all of the tax was added for coal conversion facilities, other than electrical generating plants, if the facility was constructed after July 1, 1985.

**1987 Session.** The tax rate on electrical generating plants was changed from two separate ¼ mill levies based on production to one ¼ mill levy on 60% of installed capacity times the number of hours in the taxable period and one ¼ mill levy on production. The tax rate on all coal gasification plants was reduced to 7 cents per thousand cubic feet of gas produced for sale, or 2½% of gross receipts, whichever is greater. Exemptions were enacted for synthetic natural gas produced in excess of 110 million cubic feet per day and for receipts from byproducts of a coal gasification plant to a maximum of 20% of gross

receipts. Also, the five-year exemption for coal conversion facilities other than electrical generating plants was made effective from the date of first taxable production and the reference to date of construction was eliminated.

**1989 Session.** A coal beneficiation plant was defined as a coal conversion plant and subject to a tax of 20 cents per ton or 1¼% of gross receipts, whichever is greater. An exemption was made for beneficiated coal produced in excess of 80% of plant design capacity.

**1991 Session.** A five-year exemption from part or all of the tax was created for new coal-burning, electrical generating plants.

**1997 Session.** The legislature increased the exemption for income from by-products of a coal gasification plant from 20% to 35% from January 1, 1997, through December 31, 2000. The exemption reverts to 20% after December 31, 2000. The legislature exempted revenue derived from the sale and transportation of carbon dioxide for use in the enhanced recovery of oil or natural gas, retroactive to January 1, 1997.

**2001 Session.** The legislature amended the definition of a coal conversion facility to include an electrical generating plant that has at least one single unit with a capacity of 10,000 kilowatts or more. The tax rate on installed capacity increased to .65 mill times 60 percent of installed capacity times the number of hours in the taxable period. Distribution of the tax on installed capacity changed to allocate 85 percent to the State General Fund and 15 percent to the county in which the plant is located. The tax rate on synthetic natural gas increased to \$.135 per 1,000 cubic feet. The tax rate on gross receipts changed from 2.5 percent to 4.1 percent. The first \$41,666.67 each month from a coal conversion facility other than an electrical generating plant is deposited in the State General Fund. The remainder is allocated 85 percent to the State General Fund and 15 percent to the county in which the plant is located. The legislature provided that the allocation of coal conversion tax to each county may not be less in each calendar year than it was in the immediately preceding calendar year.

Any county which has a coal conversion facility that was not a coal conversion facility before January 1, 2002, had to receive for calendar year 2002 at least as much as that facility paid in property taxes for taxable year 2001. For subsequent years, that county must receive no less than it received in the preceding calendar year. All amounts received from that facility must be allocated in the same manner property taxes for the facility were allocated for taxable year 2001.

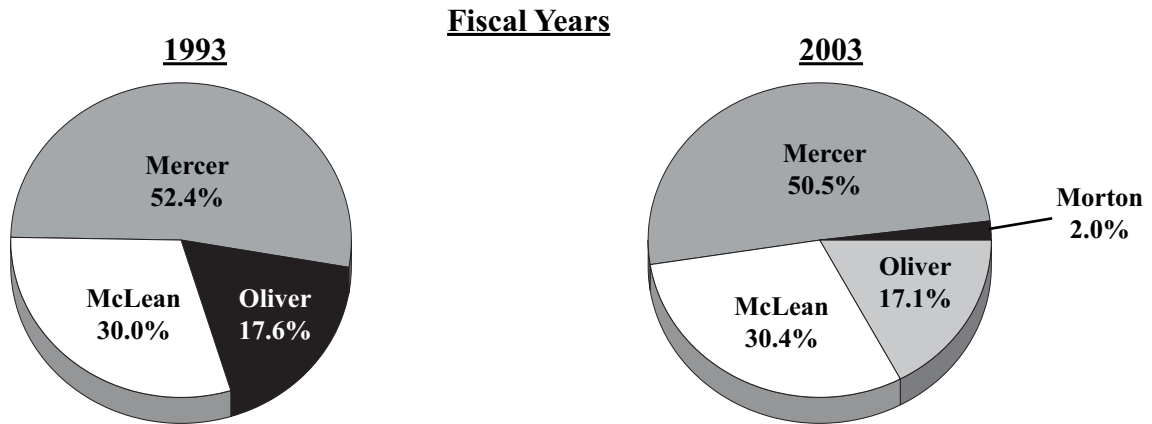


## Coal Conversion Tax Collections and Distribution

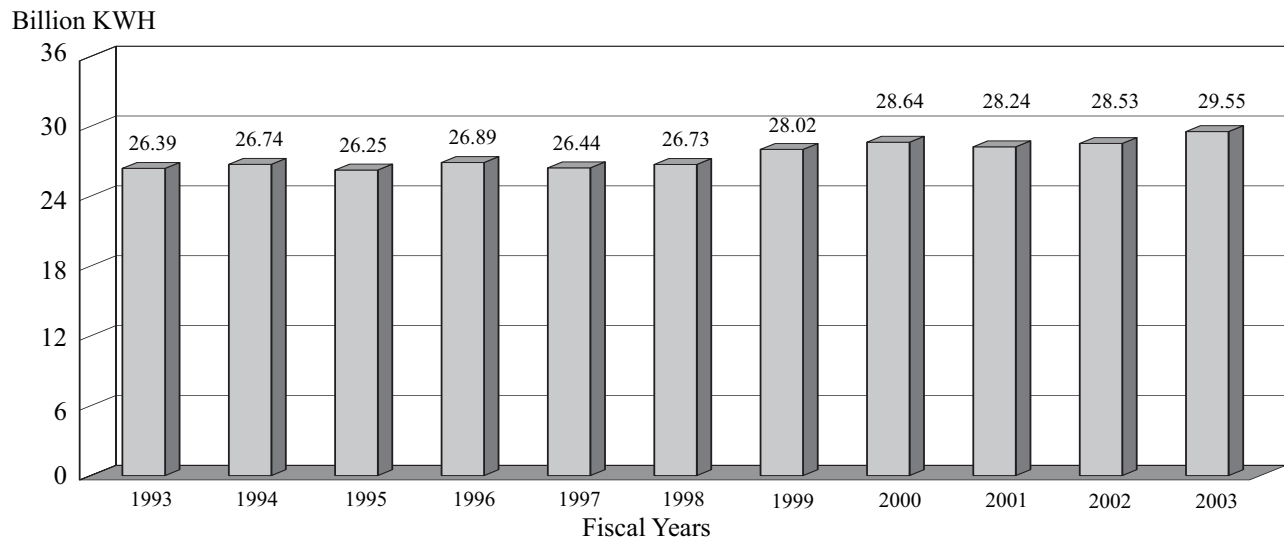
<u>Fiscal Year</u>	<u>Total Collections</u>	<u>Distributed to State General Fund</u>	<u>Distributed to Counties</u>
1994	14,280,798	11,270,643	3,010,155
1995	14,515,467	11,689,568	2,825,899
1996	15,053,253	12,170,245	2,883,008
1997	14,726,047	11,894,536	2,831,511
1998	14,531,835	11,790,623	2,741,212
1999	14,692,468	11,996,168	2,696,300
2000	15,387,068	12,490,737	2,896,331
2001	16,443,620	13,181,432	3,262,188
2002	25,349,890	22,552,708	2,797,183
2003	27,246,539	24,342,549	2,903,990
2004	28,106,144	24,432,816	3,673,328
2005 est.	26,195,000	23,293,000	2,902,000

SOURCE: North Dakota Office of State Tax Commissioner

## County Breakdown - Kilowatt Hours Produced Subject to Coal Conversion Tax



## Kilowatt Hours (KWH) Produced Subject to Coal Conversion Tax



# PROPERTY TAXES

## CURRENT LAW

### LOCALLY ASSESSED PROPERTY

#### **Imposition, Administration and Distribution of Revenue**

All real property, unless specifically exempted, is subject to a property tax. A mobile home used as a residence or business is subject to the tax if it is 27 or more feet long or is attached to utility services.

The property tax is determined by multiplying the mill rate times the taxable value of real property.

The county determines and collects the tax and distributes the revenue to the county, cities, townships, school districts, and other taxing districts. The tax is due January 1 of each year following the year of assessment and is payable without penalty until March 1. A 5% discount is allowed for taxes paid in full before February 15.

#### **Mill Rates**

Local mill rates are established to meet the revenue needs of the taxing district. Each taxing district prepares a proposed budget to determine the money needed to provide services. After public hearings, the elected governing bodies adopt final budgets and certify tax levies (total property taxes) to the county auditor. The tax levy may not exceed the legal maximum. The only increases allowed without voter or legislative approval are for property added to the tax rolls. To determine the mill rate, the county auditor divides the total property taxes to be collected for each taxing district by the district's total taxable value.

#### **Taxable Value**

**Residential.** The determination of taxable value begins with the true and full value or market value of the property. The true and full value of residential property is usually established by the local assessor. The assessed value is 50% of the true and full value and the taxable value is 9% of the assessed value.

**Commercial.** The true and full value of most commercial property is established by the local assessor. The true and full value of railroad, public utility, and airline property is centrally determined by the State Board of Equalization (see Centrally Assessed Property on page 68). The assessed value is 50% of the true and full value and the taxable value is 10% of the assessed value.

**Agricultural.** The true and full value of agricultural property is based on productivity as established through computations made by North Dakota State University of the capitalized average annual gross return of the land. This information is forwarded to the State Tax Commissioner who certifies to the county directors of tax equalization the estimated average true and full agricultural value of farm and grazing land in each county.

The county tax directors use the certified estimates of the county average agricultural values to determine the average value of agricultural lands within each assessment district in the county. This estimate is based on the relative value of lands for each assessment district compared to the county average. In determining the relative value, the county tax directors are to use soil type and soil classification data, wherever possible. In turn, the average agricultural value of agricultural lands within each assessment district is used by each local assessor to determine the agricultural value of each assessment parcel within the local district's jurisdiction.

The assessed value of agricultural land is 50% of the true and full value and the taxable value is 10% of the assessed value.

**Equalization Process.** Equalization is a method required by law to adjust assessments so that they are consistent with market value or, in the case of agricultural land, the value of agricultural productivity. Local assessments are reviewed and equalized by either the Township Board of Equalization on the second Monday in April or the City Board of Equalization on the second Tuesday in April. The Board of County Commissioners meets within the first ten days of June to equalize among assessment districts within the county. The State Board of Equalization has the responsibility to equalize among counties and assessment districts in a county and meets the second Tuesday in August.

## Exemptions and Credits

Property tax exemptions and credits are listed below according to type of property.

### **Residential Property:**

- Personal property is exempt.
- A property tax exemption of up to five years is available for the value added by rehabilitation or remodeling of property which is 25 years old or older if the city or county approves the exemption.
- Homes owned and occupied by persons who are blind or disabled may be eligible for exemption or partial exemption from property taxes, subject to annual review.
- A geothermal, solar or wind energy system may qualify for a five-year exemption.
- Qualifying new single-family residences and condominiums may be exempt for two years, provided the exemption is approved by the city or county. The exemption is limited to a maximum of \$75,000 of the structure's value.
- A single-family residence located in a Renaissance Zone may be exempt for five years provided the city approves the exemption.
- Homeowners who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age may be entitled to certain property tax credits under the homestead property tax credit program. Qualifications include an annual income of \$14,000 or less (including Social Security and pensions) and assets of \$50,000 or less (excluding the first \$80,000 value of the homestead). A qualifying homeowner may receive a credit to reduce the property's taxable value by up to \$2,000. Applications are filed with the local assessor.
  - \* In addition, these homeowners may qualify for a special assessment credit which becomes a lien on the real property and must be repaid when the property is transferred.
- Renters who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age and who have an annual income from all sources of \$14,000 or less may be entitled to rent refunds under the homestead property tax credit program. Those who qualify may receive rent refunds of up to \$240 if 20% of the rent they pay exceeds 4% of their income. Renters apply to the Office of State Tax Commissioner for this refund.

### **Commercial Property:**

- A property tax exemption of up to five years and in certain cases up to ten years is available to a qualifying new or expanding business (see page 67, New Business Exemption).
- Personal property is exempt.
- An exemption of up to five years is available for the value added to property by rehabilitation or remodeling if the city or county approves the exemption.
- The portion of a building used primarily for licensed day care is exempt if the city or county approves the exemption.
- Fixtures, buildings, and improvements used primarily as an adult care center are exempt upon approval by the city or county.
- A geothermal, solar or wind energy system may qualify for a five-year exemption.
- A cooperative or nonprofit organization that provides water to its members and customers may be eligible for an exemption for its buildings and structures.
- A public parking structure is eligible for an exemption.
- A pollution control improvement is exempt if the city or county approves the exemption.
- A commercial building located in a Renaissance Zone may be exempt for five years provided the city approves the exemption.

### **Agricultural Property:**

- Personal property is exempt.
- Farm structures are exempt if located on agricultural land and used in operations normally associated with farming and ranching. Farm residences are exempt if located on 10 acres or more of agricultural land, if occupied or used by a farmer who normally devotes the major portion of time to farming operations, and if the farmer receives not less than 50% of annual net income from these operations in any one of the preceding three years. The residence is not eligible if the farmer has received more than \$40,000 of non-farm income in each of the three preceding years. The income requirements apply to the combined income of the farmer and spouse.
- A qualifying wetland is exempt if the owner signs an agreement to keep the property as wetland. If the land is removed from wetland status, the landowner must repay up to ten years of the taxes forgiven. This exemption is available if funds are available for the state to reimburse the political subdivisions for all revenue losses.
- State-owned land leased for grazing or pasture purposes is exempt. State-owned land leased for growing crops is exempt if payments in lieu of property taxes are made by the state.

### **Other Property:**

- Property owned by a governmental unit is exempt.
- Property owned and used exclusively for religious or charitable purposes is exempt. Property owned by a religious organization may retain its exemption if the property is rented to a tax-exempt organization and no profit is realized from the rent.
- Property owned by a lodge, club, association or like organization is exempt if the organization is nonprofit, if the property is used for meeting and for conducting business or ceremony, and if food or alcoholic beverages are not sold for profit on the premises. This property, however, is subject to taxation by cities for the cost of fire protection services.
- All property belonging to an educational institution and not used for profit is exempt.
- Property owned by a nonprofit corporation and used for promoting athletic and educational needs at a state educational institution is exempt.
- All land used exclusively for burying grounds or cemeteries is exempt.
- Land belonging to a military organization and used as a public park or monument ground and not for gain is exempt.
- Minerals in place in the earth are exempt if, at the time of extraction, they are subject to either the oil and gas gross production tax or the coal severance tax.
- Property of Native Americans, where the title cannot be transferred without the consent of the U.S. Secretary of the Interior, is exempt.
- Forested land may be eligible for a reduced property tax rate of 50 cents per acre.
- All property, including any possessory interest therein, relating to waterworks, mains, water distribution systems, sewage systems, and facilities for the collection, treatment, purification and disposal in a sanitary manner of sewage, leased to the state or any agency or institution of the state, or to a private entity, which property is operated by, or providing services to, a municipality or other political subdivision is exempt.
- All property, including any possessory interest therein, belonging to the state or an agency or institution of the state leased to a private entity, which property is operated by, or providing services to, the state or its citizens is exempt.
- Property owned by the state and held under a lease and any structure, fixture, or improvement located on that property is not taxable to the leaseholder if the structure, fixture, or improvement is used primarily for athletic and educational purposes at any state institution of higher education.

### **New Business Exemption**

**Parameters.** Any new or expanding business project may be granted a property tax exemption for up to five years. Two extensions are available:

- Agricultural processors may be granted a partial or full exemption for up to five additional years.
- A project which is located in property leased from a governmental entity qualifies for an exemption for up to five additional years upon annual application by the project operator.

In addition to or instead of an exemption, local governments and any project operator may negotiate payments in lieu of property tax for a period of up to 20 years from the date project operations begin.

**Qualifications.** A qualifying “project” is any new or expanded revenue-producing enterprise. All buildings, structures or improvements used in or necessary to the operation of the project qualify. The structure may be the project’s building or the project’s quarters within a larger building. An exemption may not be granted for land. A project is not eligible for an exemption if the project received a tax exemption under tax increment financing or if the governing body determines the exemption fosters unfair competition or endangers existing business.

**Application Procedures.** The project operator applies to the city governing body if the project is located within city boundaries. If the project is located outside city boundaries, application is made to the county commission.

- The application must be made and approved before construction of a new structure begins. If the project will occupy an existing structure, application must be made and approved before the structure is occupied.
- If the city or county governing body determines there are local competitors, the project operator must publish two notices in the official newspaper of the city or county at least one week apart, and the last notice must be published at least 15 days, but not more than 30 days, before the city or county considers the application. For example, notices published one week apart on May 1 and May 8 are appropriate for a hearing scheduled anytime between May 23 and June 7.
- The city or county governing body holds a public hearing on the application.
- After the public hearing, the city or county governing body acts on the application.

## **CENTRALLY ASSESSED PROPERTY**

### **Assessment Procedures**

Assessments for property tax purposes of railroads, investor-owned public utilities, and airlines are determined by the State Board of Equalization. As with all other commercial property, the assessed value of centrally assessed property is 50% of the true and full value and the taxable value is 10% of the assessed value. The taxable value of centrally assessed property is subject to property taxes as discussed below for each type of property.

Steps in the assessment process are as follows:

1. The company must file an annual report with the State Tax Commissioner by May 1.
2. The State Tax Commissioner prepares a tentative assessment by July 15.
3. Notice of tentative assessment is sent to the company ten days prior to the State Board of Equalization meeting.
4. The State Board of Equalization meets the first Tuesday in August at the Office of State Tax Commissioner to receive testimony on the value of centrally assessed property and to make the assessments.
5. Following the action of the State Board of Equalization, the State Tax Commissioner certifies the assessments to the counties.

### **Airlines**

A regularly scheduled airline serving North Dakota cities pays a property tax computed by applying the average of all mill levies in the municipalities served by regularly scheduled airlines against the taxable valuation of an airline's operating real property located in North Dakota.

The Tax Commissioner collects the tax and the State Treasurer distributes the revenue to the municipalities in which the airline operates. The revenue is used exclusively for airport purposes.

### **Public Utilities**

Centrally assessed public utilities are investor-owned power, gas and pipeline companies. The tax for telecommunications carriers is discussed below. The taxable value of a utility's North Dakota real and personal operating property is subject to the mill levies of the taxing districts in which the property is located.

The tax is collected by the county and distributed to the taxing districts within the county.

A 10-year exemption is allowed for pipelines carrying CO<sub>2</sub> for use in enhanced recovery of oil or natural gas. The state reimburses political subdivisions for the lost tax revenue.

A transmission line of 230 kilovolts or larger, and its associated transmission substations, initially placed in service or substantially expanded on or after October 1, 2002, is exempt from property taxes for the first taxable year. Subsequent years' taxes must be reduced by 75 percent for the second year, 50 percent for the third year, and 25 percent for the fourth year. After the fourth year, the transmission line and substations are exempt from property taxes and are subject to a tax of \$300 per mile.

### **Railroads**

Railroad operating real property is taxed at the mill rates of the taxing districts in which the property of the railroad is located. The tax is collected by the county and distributed to the various taxing districts within the county.

## **TAXES PAID IN LIEU OF PROPERTY TAXES**

### **Telecommunications Carriers**

Telecommunications carriers are assessed a tax of 2½% of their adjusted gross receipts by the State Board of Equalization. The gross receipts tax is paid annually to the Tax Commissioner. The state allocates \$8.4 million annually to the counties for distribution to political subdivisions. Revenue in excess of \$8.4 million is deposited in the state general fund.

### **Rural Electric Cooperatives**

Rural electric generation, transmission and distribution cooperatives pay a gross receipts tax instead of a property tax on all property except land, which is assessed locally. The gross receipts tax is 1% during the first five years of business and 2% thereafter. The tax is paid annually to the county. The revenue is apportioned to each county according to the miles of lines the cooperative has in the county compared to its total miles of line and is distributed to the taxing districts within the county.



Rural electric cooperatives which have at least one unit with a generating capacity of 100,000 kilowatts or more pay a transmission line tax of \$225 per mile on transmission lines of 230 kilovolts or more. This tax is collected annually and the revenue is apportioned among the counties in which the lines are located according to the number of miles in each county. The revenue goes to the county general fund. The tax on a transmission line of 230 kilovolts or larger initially placed in service or substantially expanded on or after October 1, 2002, is \$300 per mile. The tax does not apply for the first taxable year. The second year's taxes must be reduced by 75 percent, the third year's taxes by 50 percent, and the fourth year's taxes by 25 percent.

### **Coal Conversion Facilities**

The coal conversion tax is in lieu of property taxes on investor-owned or cooperative electrical generating plants which have at least one unit with a generating capacity of 10,000 kilowatts or more of electricity, other coal conversion facilities consuming 500,000 tons or more of coal per year, or coal beneficiation plants. (See page 62.)

### **Tourism or Concession License Fee**

A license fee in lieu of property taxes is payable for state-owned property leased from the Superintendent of the State Historical Board or the Director of State Parks and Recreation and used for tourism or concession purposes. The fee is set by the superintendent or by the director and is at least \$1, but not more than 1% of the tenant's gross receipts. The tenant pays the license fee to the county treasurer, who deposits the payment into the county general fund.

## **HISTORICAL OVERVIEW**

### **Significant Changes in Law**

**Before 1981.** Prior to the 1981 Legislative Session, the standard of value was market value, but property was assessed at a fraction of its market value. By law, all real property was in one class, but a de facto classification system existed. Limitations were imposed on the number of mills which could be levied.

**1981 Session.** The legislature changed the procedures for determining the value of property for tax purposes to include methods of establishing the true and full value, assessed value, and taxable value of property, according to a new classification system. Limits were placed on the dollar amount of change in the levy rather than on the number of mills which could be levied. The new law allowed up to a 7% increase in the amount of dollars levied. Also, the maximum income to qualify for the homestead credit was increased from \$9,000 to \$10,000.

**1983 Session.** The legislature allowed for a 4% increase in the amount of dollars levied. Cities and counties were authorized to give two-year exemptions for new single family or town house property. The new business exemption's cost and sales limitations were increased from \$100 million to \$150 million.

**1985 Session.** The legislature allowed for a 3% increase in the amount of dollars levied. An exemption for qualifying wetlands was enacted, effective for tax years beginning after December 31, 1986. The maximum income to qualify for the homestead credit was increased from \$10,000 to \$12,000.

**1987 Session.** The legislature allowed for a 5% increase in the amount of dollars levied. The legislature removed limitations on the type of business qualifying for the new business exemption. Previously, the exemption was limited to assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any agricultural, mineral or manufactured product. In effect, qualifications were expanded to include service and retail industries.

**1989 Session.** The legislature allowed for a 5% increase in the amount of dollars levied. An exemption was added for day care in commercial property and the exemption for religious organizations was extended to include property rented to a tax-exempt organization. The income limitation to qualify for the homestead property tax credit program was increased from \$12,000 to \$13,000 per year. Changes to the new business exemption law included the following: removing the requirement that the State Board of Equalization approve the property tax exemption; excepting property in cities of 3,000 population or less from the vacancy requirement; excluding projects exempt under tax increment financing; and allowing the property tax exemption to be extended up to ten years for projects in property leased from a governmental entity.



**1991 Session.** The legislature allowed for a 4% increase in the amount of dollars levied. The property tax exemption was broadened to include expanding businesses and was decoupled from the income tax exemption; the vacancy requirement to use existing buildings was removed; and a partial exemption for the sixth through tenth years was allowed for projects which produce or manufacture a product from agricultural commodities grown in North Dakota. A 10-year exemption was created for pipelines carrying CO<sub>2</sub> to an enhanced recovery project in a North Dakota oil field. A license fee in lieu of property taxes was adopted for certain state-owned property leased for tourism or concession purposes. Changes to the property tax on forested land included a 50-cent per acre rate and several administrative changes.

**1993 Session.** The legislature set the maximum levy increase at 3% for taxes payable in 1994 and 2% for 1995. Cities and counties were permitted to exempt pollution control improvements. An exemption was granted to state-owned land leased for grazing or pasture purposes. State-owned land leased for growing crops was exempted if payments in lieu of property taxes are made by the state. The income limitation to qualify for the homestead property tax credit program was increased from \$13,000 to \$13,500 per year beginning with the 1995 tax year.

**1994 Special Session.** The legislature removed project size limitations as qualifications for the new or expanding business tax exemption. The change allowed large projects to qualify. The extended exemption for agricultural processors was changed from a partial exemption to either a partial or complete exemption. Legislators enabled a local government and any project operator to negotiate in lieu of property tax payments for a period of up to 20 years.

**1995 Session.** The legislature allowed for a levy increase of 2% for taxes payable in 1996 and 1997. The only increase allowed after 1998 without voter or legislative approval is property added to the tax rolls. Railroad personal property was exempted from property taxes. Before a city or county grants a new business exemption or payments in lieu of taxes, the affected school districts and townships must be consulted.

**1997 Session.** The legislature allowed for a 2% increase in the amount levied to match federal funds. The state water commission was to make payments in lieu of taxes for land acquired for the Devils Lake project. For agricultural land formula used by NDSU, the legislature extended the agricultural production data to a 10-year period for the 2000 assessment. A 50 percent expense allowance for agricultural revenue from irrigated cropland was

made permanent. The temporary requirement that school districts and townships must be consulted before granting a new business property tax incentive expired. The income requirement for the farm residence exemption was defined as more than 50 percent from farming activities in any one of the preceding three years. Allowable nonfarm income increased to \$40,000 during each of the preceeding three years. Park model trailer owners were required to pay the motor vehicle department a fee of \$20 per year to qualify for exemption from taxation as a mobile home for tax years 1997 and 1998. The maximum general tax levy for fire protection districts was increased from ten to thirteen mills. The state engineer was given authority to take remedies when man-made objects situated in, on the bed of, or adjacent to a navigable lake are, or are imminently likely to be, a menace to life or property or public health or safety. The state engineer may assess costs of action against any property of the person responsible. The agricultural property definition for property platted after March 30, 1981, was changed. A pipeline and associated equipment, not including land, constructed after 1996 for the transportation or storage of CO<sub>2</sub> for use in enhanced recovery of oil or natural gas is tax exempt during construction and the first ten full taxable years.

**1999 Session.**

- Made confidential income and expense statements provided by commercial property owners to assessors.
- Allowed an abatement of property tax for damage to a building, mobile home, structure, or other improvement caused by natural disaster.
- Increased the income limitation for the homeowners' homestead credit and renters' refund from \$13,500 to \$14,000.
- Made permanent the \$20 permit fee for a park model trailer in lieu of the mobile home tax.
- Expanded the farm building exemption to include feedlots and buildings used primarily, rather than exclusively, for farming purposes.
- Allowed depreciation expense as an addition to net farm income for the farm residence exemption.
- Granted the farm residence exemption to beginning farmers.
- Established a class of inundated agricultural property that is assessed at ten percent of the noncropland value.
- Changed the agricultural land valuation formula to require inclusion of a production cost factor.
- Made permanent the requirement that school districts and townships must be included in the negotiations for the new business exemption.
- Changed the payments in lieu of taxes for new businesses to include existing buildings as well as new buildings.

- Extended the time of exemption for remodeling from three to five years and allowed an addition to an existing building to be exempted as an eligible improvement.
- Changed the tax deed proceedings from a sale of tax delinquent property to foreclosure of tax lien.
- Changed the county levy for social security to allow up to five mills to be used for county automation and telecommunications.
- Increased the levy of a tax for programs and activities for senior citizens by a county or city from one to two mills.
- Provided that a school district may levy up to 15 mills for removal or abatement of asbestos in school buildings and for providing an alternative education program.

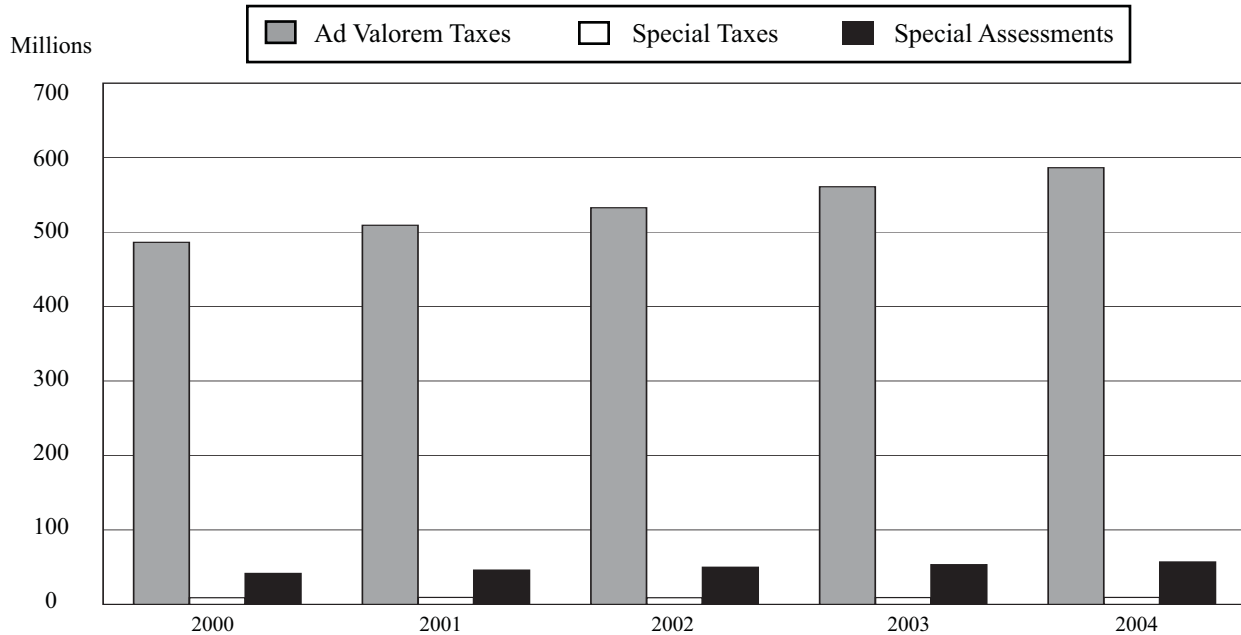
#### **2001 Session.**

- Required that when the board of county commissioners rejects an application for abatement, a written explanation of the rationale for the decision must be attached to the application and mailed to the applicant.
- Provided that the taxable value of a centrally assessed wind turbine electric generation unit with a capacity of 100 kwh or more is 3 percent of assessed value.
- Provided that a county officer or employee will not refund a fee or tax of less than \$5.00.
- Provided that a municipality may provide partial or complete exemption on residential property, exclusive of land, if the property was rehabilitated by an individual for the primary place of residence as a renaissance zone project. Provided for exemptions on buildings, structures, fixtures and improvements rehabilitated as a zone project for any business or investment purpose. A taxpayer may not be delinquent in payment of any state or local tax to benefit from those provisions.
- Defined inundated agricultural land as agricultural property containing a minimum of 10 contiguous acres if the value exceeds 10 percent of the average agricultural value of noncropland for the county. Provided the land must have been unsuitable for growing crops or grazing farm animals for at least two consecutive growing seasons, and produced revenue less than the county average revenue per acre for noncropland.
- Required a nonprofit organization to make payments in lieu of taxes on property acquired for conservation.
- Changed the rates of the coal severance and coal conversion taxes to make North Dakota coal more competitive with out-of-state coal and at the same time, maintain the level of payments to counties and the state general fund.
- Provided that a township may defray expenses of improvements by special assessment.

#### **2003 Session.**

- Provided that land acquired by tax deed must be sold to the highest qualified bidder. Provided that a person is unqualified to be the highest bidder for property if the person owes delinquent taxes to any county.
- Provided that any privately owned structure, fixture, or improvement located on state-owned land is not exempt from special assessments levied for flood control purposes if it is used for commercial purposes, unless it is primarily used for athletic or educational purposes at a state institution of higher learning.
- Exempted from property taxation all property including any possessory interest therein, relating to any waterworks, mains, and water distribution system, or sewage systems and facilities for the collection, treatment, purification, and disposal in a sanitary manner of sewage, leased to the state or any agency or institution of the state, or to a private entity, which property is operated by, or providing services to, a municipality or other political subdivision.
- Exempted from property taxation any property, including any possessory interest therein, belonging to the state or an agency or institution of the state, leased to a private entity pursuant to N.D.C.C. § 54-01-27, which property is operated by, or providing services to, the state or its citizens.
- Provided that property owned by the state and held under a lease and any structure, fixture, or improvement located on that property is not taxable to the leaseholder if the structure, fixture, or improvement is used primarily for athletic and educational purposes at any state institution of higher education.
- Provided for one year's exemption and three years of graduated tax rates for new or substantially expanded investor-owned and cooperative-owned transmission lines of 230 kilovolts or larger, and associated transmission substations, initially placed in service on or after October 1, 2002. After the fourth year, those lines are taxed at \$300 per mile.

## Ad Valorem and Special Property Taxes Levied Payable in 2000-2004



Year Payable	Ad Valorem Property Taxes			Special Property Taxes	
	Total Taxes and Special Assessments	Real Estate <sup>(1)</sup>	Utilities <sup>(2)</sup>	Special Taxes <sup>(3)</sup>	Special Assessments
2000	536,713,609	465,641,622	20,552,642	9,021,499	41,497,847
2001	564,410,067	484,467,374	24,565,347	9,403,784	45,973,562
2002	591,580,893	504,170,558	28,459,117	8,999,429	49,951,786
2003	623,370,222	532,221,864	28,530,045	9,215,033	53,403,280
2004	652,667,321	555,928,867	30,483,151	9,253,881	57,001,422

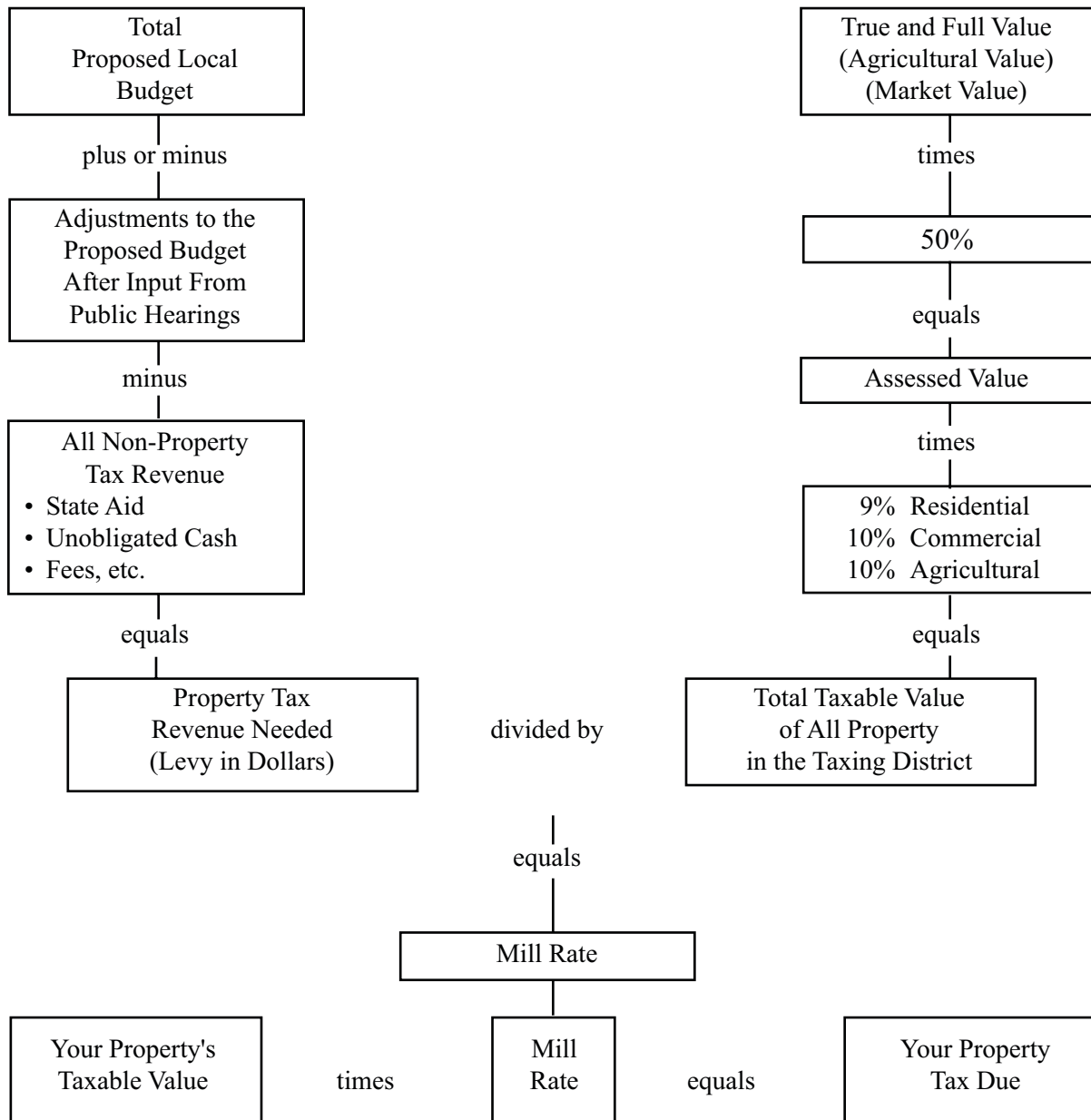
<sup>(1)</sup> Includes tax increments.

<sup>(2)</sup> Includes taxes on railroad property; electric, gas and heating property (except cooperative and coal conversion); and pipeline property.

<sup>(3)</sup> Includes taxes from mobile homes, rural electric cooperatives, banks and building and loan associations, woodlands, and game management areas.

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota." Transmission line taxes are collected by the State Tax Commissioner and are not included above.

# North Dakota Property Tax System



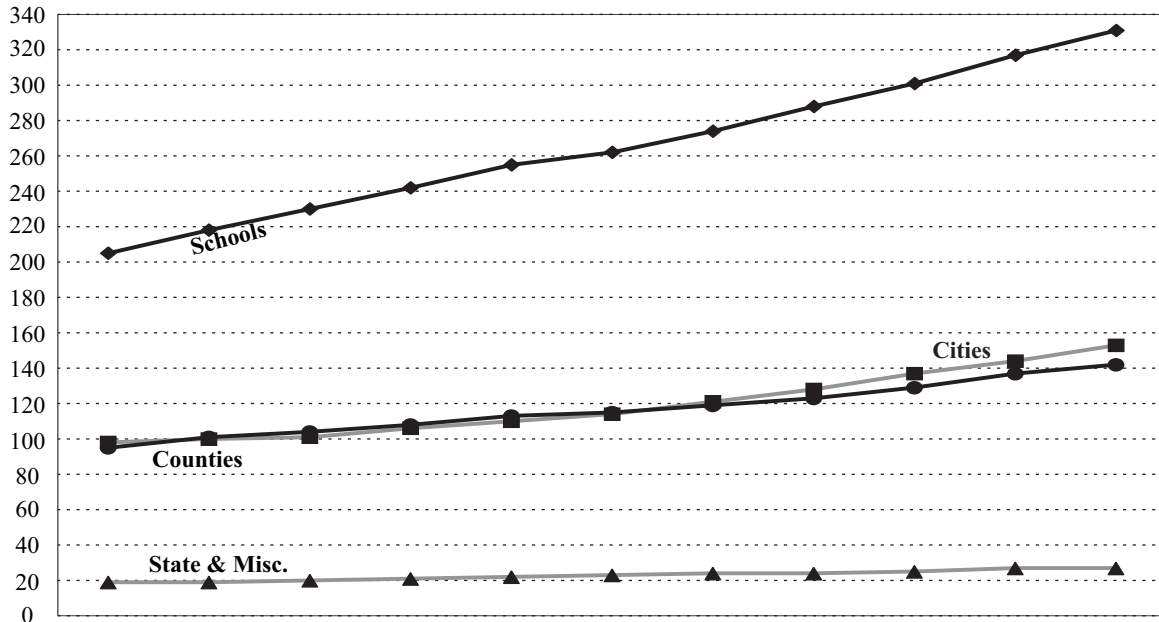
All property in North Dakota is subject to property tax unless it is specifically exempted. Except for a one-mill levy for the State Medical Center, property taxes are administered, levied, collected and expended at the local level for the support of schools, counties, cities, townships and other local units of government. The State does not levy a property tax for general government operations.

The property tax is an "ad valorem" tax, that is, it is based on the value of the property subject to tax. The other element of the property tax is the amount of revenue that needs to be raised.

## General and Special Property Taxes by Taxing Districts

Payable in 1994 - 2004

Millions of Dollars



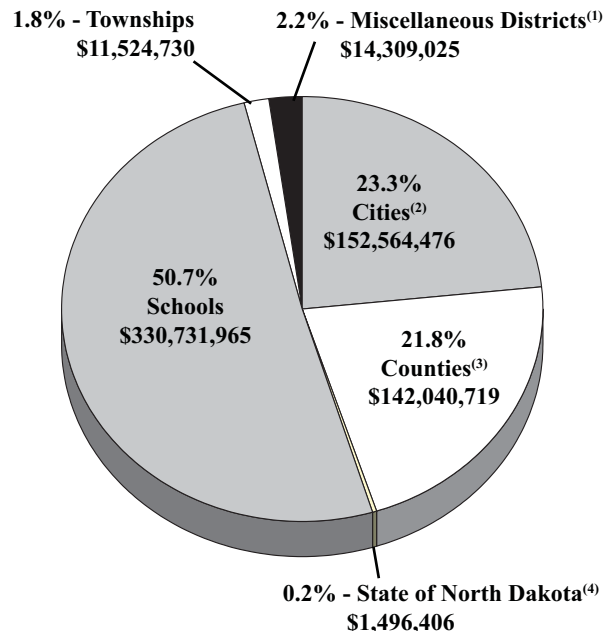
Year Payable	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Schools	205	218	230	242	255	262	274	288	301	317	331
Cities	98	100	101	106	110	114	121	128	137	144	153
Counties	95	101	104	108	113	115	119	123	129	137	142
State & Misc.	19	19	20	21	22	23	24	24	25	27	27

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota."

### Percent of Property Taxes by Taxing District

Levied in 2003 - Payable in 2004

**GRAND TOTAL - \$652,667,321**



<sup>(1)</sup> Garrison Diversion Conservancy District, rural fire protection districts, hospital district, soil conservation districts, rural ambulance districts, recreation service districts, Southwest Water Authority and all special assessments for rural districts.

<sup>(2)</sup> Including city park districts, special assessments, and tax increments.

<sup>(3)</sup> Including county park districts, county library, county airport, water management districts, vector control, unorganized townships and board of county parks.

<sup>(4)</sup> Constitutional one mill levy for medical center at the University of North Dakota.

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota."

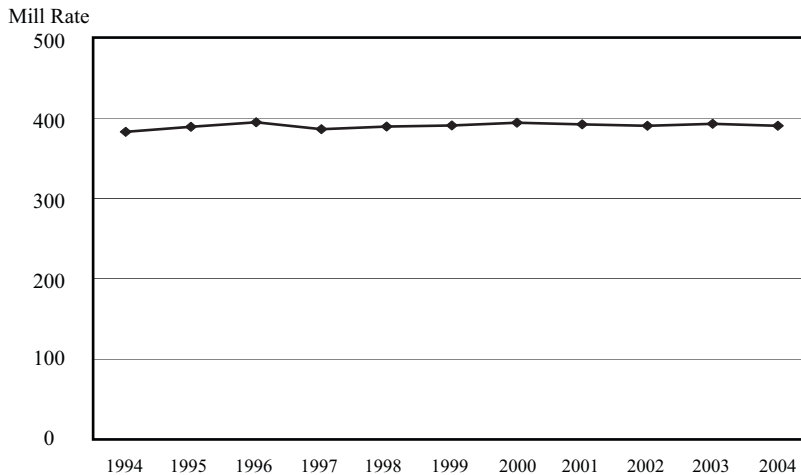
## General Property Taxes by County - Payable in 2000-2004

County	2000 Total Ad Valorem Property Taxes	2001 Total Ad Valorem Property Taxes	Percent Change	2002 Total Ad Valorem Property Taxes	Percent Change	2003 Total Ad Valorem Property Taxes	Percent Change	2004 Total Ad Valorem Property Taxes	Percent Change
Adams	2,334,597	2,331,644	-0.1	2,453,990	5.2	2,563,241	4.5	2,593,335	1.2
Barnes	9,385,558	9,872,563	5.2	10,400,945	5.4	10,889,865	4.7	11,804,754	8.4
Benson	3,675,953	3,752,223	2.1	3,860,334	2.9	3,958,608	2.5	3,998,165	1.0
Billings	616,163	599,429	-2.7	608,510	1.5	619,371	1.8	672,161	8.5
Bottineau	6,035,993	6,137,755	1.7	6,569,116	7.0	6,651,789	1.3	6,998,204	5.2
Bowman	2,212,977	2,298,768	3.9	2,221,035	-3.4	2,354,669	6.0	2,055,826	-12.7
Burke	2,224,119	2,265,123	1.8	2,162,284	-4.5	2,225,234	2.9	2,437,398	9.5
Burleigh	54,651,384	57,175,760	4.6	60,121,827	5.2	63,347,116	5.4	66,114,984	4.4
Cass	101,383,540	109,179,889	7.7	117,148,172	7.3	125,720,940	7.3	134,352,710	6.9
Cavalier	5,783,453	5,800,774	0.3	5,810,054	0.2	5,968,462	2.7	6,134,509	2.8
Dickey	4,645,399	4,937,451	6.3	5,306,110	7.5	5,541,540	4.4	5,672,799	2.4
Divide	2,614,988	2,670,665	2.1	2,696,072	1.0	2,675,771	-0.8	2,798,728	4.6
Dunn	3,239,217	3,396,391	4.9	3,575,264	5.32	3,782,078	5.8	3,887,738	2.8
Eddy	2,155,978	2,174,012	0.8	2,275,507	4.7	2,337,157	2.7	2,493,299	6.7
Emmons	3,724,770	3,713,058	-0.3	3,734,118	0.6	3,779,594	1.2	3,964,980	4.9
Foster	3,171,455	3,530,811	11.3	3,820,256	8.2	3,947,577	3.3	3,936,415	-0.3
Golden Valley	1,726,752	1,736,570	0.6	1,684,130	-3.0	1,733,145	2.9	1,666,695	-3.8
Grand Forks	49,809,986	51,862,009	4.1	54,152,356	4.4	56,806,768	4.9	59,810,282	5.3
Grant	2,517,920	2,586,045	2.7	2,688,003	3.9	2,721,576	1.2	2,684,087	-1.4
Griggs	2,952,836	3,028,131	2.5	3,152,252	4.1	3,399,455	7.8	3,349,623	-1.5
Hettinger	2,511,400	2,548,127	1.5	2,561,517	0.5	2,690,864	5.0	2,755,938	2.4
Kidder	2,631,986	2,607,512	-0.9	2,557,716	-1.9	2,715,575	6.2	2,946,209	8.5
LaMoure	4,166,103	4,178,472	0.3	4,306,714	3.1	4,406,069	2.3	4,687,088	6.4
Logan	1,981,789	1,981,765	0.0	2,013,618	1.6	2,021,229	0.4	2,062,281	2.0
McHenry	4,216,304	4,523,168	7.3	4,790,731	5.9	4,911,928	2.5	5,204,674	6.0
McIntosh	2,667,836	2,766,434	3.7	2,854,796	3.2	2,911,283	2.0	3,016,185	3.6
McKenzie	3,141,127	3,218,426	2.5	3,386,094	5.2	3,434,259	1.4	3,555,472	3.5
McLean	5,251,128	5,398,105	2.8	5,606,337	3.9	5,918,002	5.6	6,464,448	9.2
Mercer	5,104,405	5,352,422	4.9	5,791,283	8.2	5,882,102	1.6	6,088,203	3.5
Morton	19,339,440	20,166,661	4.3	20,618,197	2.2	21,162,122	2.6	22,778,415	7.6
Mountrail	4,708,705	4,938,796	4.9	4,977,119	0.8	5,156,009	3.6	5,133,848	-0.4
Nelson	4,032,900	4,012,389	-0.5	4,120,380	2.7	4,178,608	1.4	4,235,371	1.4
Oliver	1,328,251	1,328,389	0.0	1,389,447	4.6	1,468,364	5.7	1,490,833	1.5
Pembina	8,932,690	9,130,867	2.2	9,533,512	4.4	9,909,310	3.9	9,824,330	-0.9
Pierce	3,983,543	4,179,465	4.9	4,514,481	8.0	4,579,146	1.4	4,758,652	3.9
Ramsey	8,842,811	8,992,759	1.7	9,080,513	1.0	9,359,497	3.1	9,637,229	3.0
Ransom	4,840,674	5,127,161	5.9	5,262,086	2.6	5,994,226	13.9	6,206,508	3.5
Renville	2,450,821	2,521,649	2.9	2,537,717	0.6	2,789,326	9.9	2,903,250	4.1
Richland	15,322,710	16,397,610	7.0	17,268,938	5.3	18,322,931	6.1	18,802,477	2.6
Rolette	3,156,475	3,239,291	2.6	3,287,336	1.5	3,516,572	7.0	3,491,704	-0.7
Sargent	4,477,969	4,756,345	6.2	4,823,344	1.4	5,207,653	8.0	5,455,585	4.8
Sheridan	1,746,754	1,720,090	-1.5	1,742,163	1.3	1,801,927	3.4	1,882,775	4.5
Sioux	712,232	725,846	1.9	712,418	-1.9	662,661	-7.0	734,520	10.8
Slope	903,887	937,032	3.7	961,171	2.6	1,012,795	5.4	1,067,638	5.4
Stark	13,036,350	13,357,168	2.5	13,714,552	2.7	14,313,263	4.4	15,085,650	5.4
Steele	3,217,159	3,323,801	3.3	3,452,107	3.9	3,559,676	3.1	3,588,789	0.8
Stutsman	15,221,145	16,198,244	6.4	17,031,436	5.1	18,669,264	9.6	19,396,865	3.9
Towner	3,416,568	3,364,395	-1.5	3,509,885	4.3	3,608,000	2.8	3,812,907	5.7
Traill	7,347,792	7,728,374	5.2	8,100,655	4.8	8,536,646	5.4	8,804,445	3.1
Walsh	11,002,597	11,207,352	1.9	11,631,393	3.8	12,091,520	4.0	12,189,558	0.8
Ward	32,847,831	34,749,463	5.8	36,428,105	4.8	38,714,503	6.3	39,888,318	3.0
Wells	4,679,904	4,799,228	2.5	5,003,443	4.3	5,372,409	7.4	5,767,738	7.4
Williams	14,109,943	14,506,843	2.8	14,620,140	0.8	14,850,214	1.6	15,267,423	2.8
Total	486,194,264	509,032,721	4.7	532,629,677	4.6	560,751,909	5.3	586,412,017	4.6

SOURCE: North Dakota Office of State Tax Commissioner. Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota."

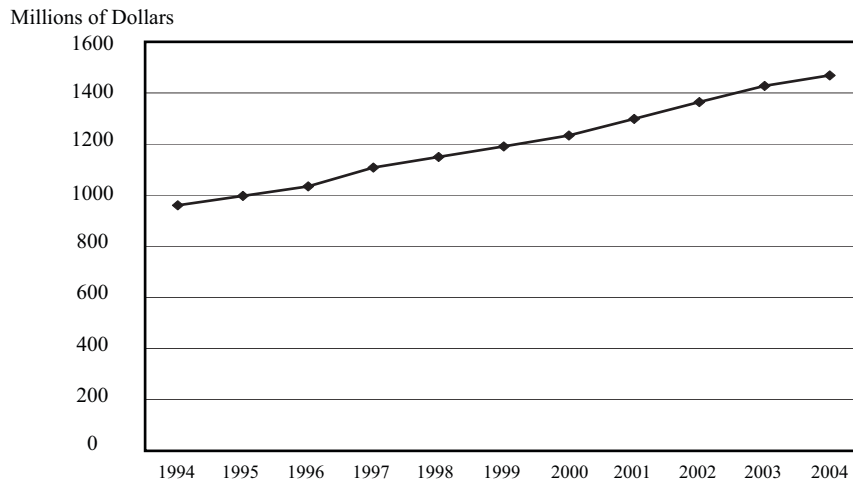


## Statewide Average Mill Rates - For Taxes Payable in 1994-2004



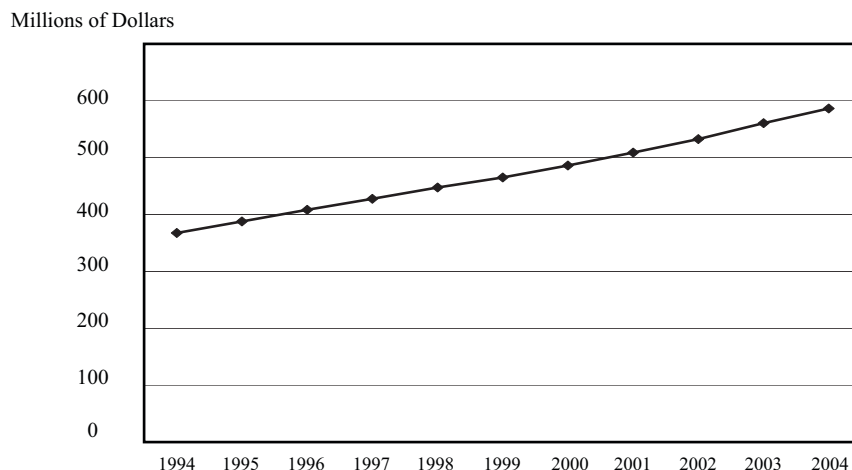
Year Payable	Average Mill Rate
1994	382.84
1995	389.14
1996	394.73
1997	386.04
1998	389.32
1999	390.74
2000	394.10
2001	392.07
2002	390.33
2003	392.78
2004	399.24

## Statewide Property Taxable Valuations - For Taxes Payable in 1994-2004



Year Payable	Taxable Value
1994	960,176,210
1995	997,007,697
1996	1,034,523,718
1997	1,107,855,644
1998	1,149,656,119
1999	1,190,563,319
2000	1,233,682,014
2001	1,298,333,166
2002	1,364,577,713
2003	1,427,642,584
2004	1,468,874,722

## Ad Valorem Property Taxes Levied - For Taxes Payable in 1994-2004

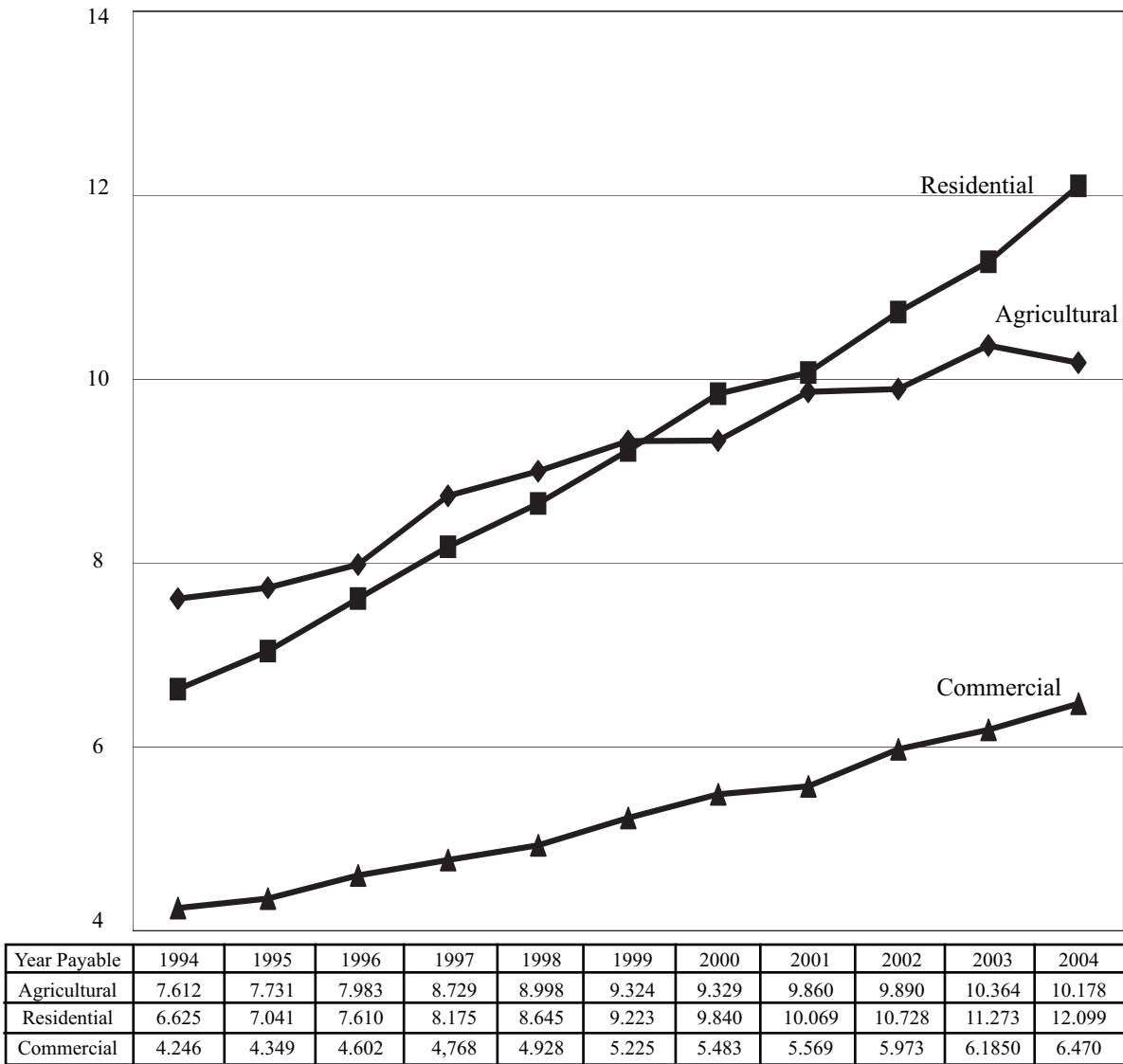


Year Payable	Taxes
1994	367,598,089
1995	387,979,413
1996	408,353,215
1997	427,677,147
1998	447,582,274
1999	465,203,396
2000	486,194,264
2001	509,032,721
2002	532,629,675
2003	560,751,909
2004	586,412,017

## True and Full Value by Classification

### For Taxes Payable in 1994 - 2004

Billions of Dollars



### Explanation of Terms and Trends

**True and full value.** For residential and commercial property "true and full value" is the local assessor's estimate of the market value of the property. For agricultural property, true and full value is based on agricultural production and is typically less than its market value or selling price.

**Effective Rates.** An annual sales ratio study measures how close "true and full values" are to actual selling prices for property. The results may be used to calculate an effective tax rate for each classification. The effective rate is the total tax divided by the total indicated selling price (see table on page 78).

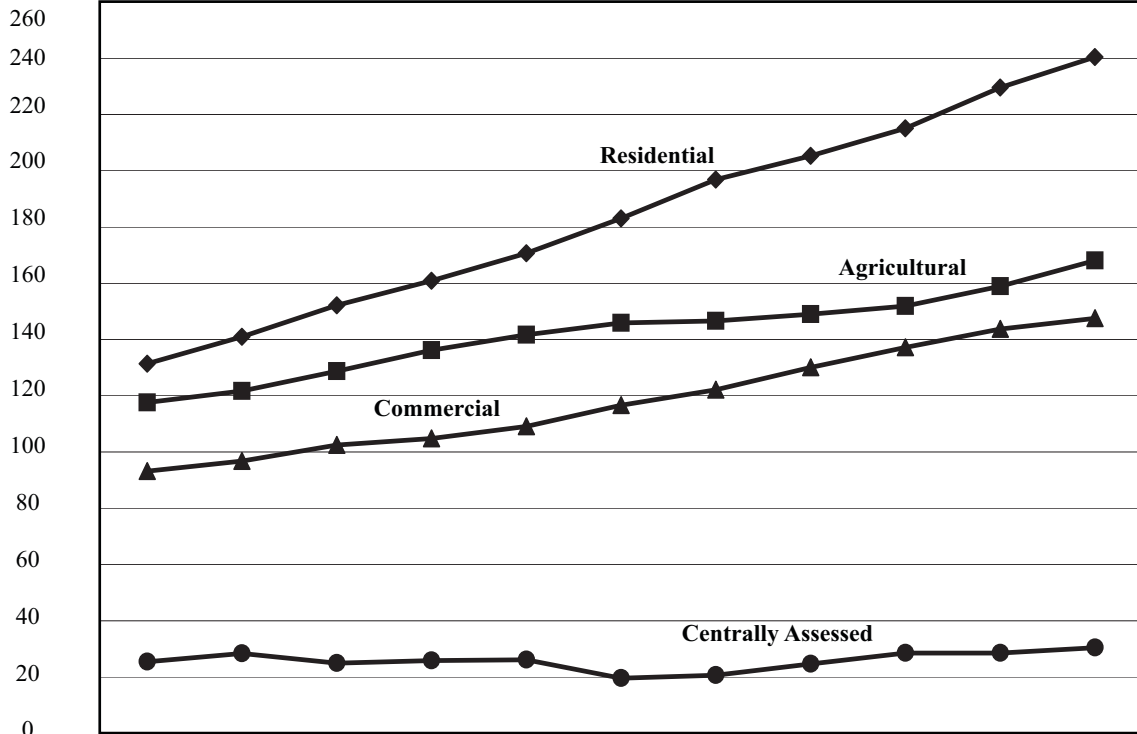
**Trends.** During the first three years of the past 11 years, mill rates were increasing and total taxable valuations were increasing (see preceding page). More recently, the statewide average mill rate is fluctuating while values are increasing. The table above shows how the total true and full value for each classification has been increasing at an accelerating pace. Agriculture values tend to go up when production and commodity prices are increasing. Other property values tend to go up when employment is high. Another factor is that total values of residential and commercial property include a slightly rising number of properties. The number of acres classified as agricultural land is down slightly.

Charts in this section show statewide data. Please note that values and taxes for individual properties will depend on local economic conditions and other factors. The table above includes values for taxes payable in 2004.

## Ad Valorem Property Taxes by Classification

Payable in 1994- 2004

Millions of Dollars



Year Payable	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Residential	131.4	141.0	152.2	160.9	170.7	183.1	196.9	205.3	215.1	229.6	240.4
Agricultural	117.6	121.7	128.7	136.2	141.7	145.9	146.6	149.0	151.9	158.9	168.1
Commercial	93.2	96.8	102.5	104.8	109.1	116.6	122.1	130.1	137.2	143.7	147.5
Central	25.4	28.4	24.9	25.8	26.1	19.6	20.6	24.6	28.5	28.5	30.4
<b>Total</b>	<b>367.6</b>	<b>388.0</b>	<b>408.4</b>	<b>427.7</b>	<b>447.6</b>	<b>465.2</b>	<b>486.2</b>	<b>509.0</b>	<b>532.6</b>	<b>560.7</b>	<b>586.4</b>

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota."

## Ad Valorem Property Taxes Percent of Total by Classification

Payable in 2002, 2003 and 2004

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Residential	40.4%	40.9%	41.0%
Agricultural	28.5%	28.4%	28.7%
Commercial	25.8%	25.6%	25.2%
Centrally Assessed	5.3%	5.1%	5.1%

## Effective Rates by Classification

Payable in 2002, 2003 and 2004

Property Classification	Effective Rate		
	2002	2003	2004
Residential	1.89%	1.91%	1.83%
Agricultural	1.11%	1.11%	1.08%
Commercial	2.22%	2.26%	2.21%
Centrally Assessed	1.60%	1.61%	1.66%
<b>Total</b>	<b>1.61%</b>	<b>1.62%</b>	<b>1.57%</b>

## STATE COMPARISONS

North Dakota's property taxes are relatively moderate compared to those in other states, whether measured per capita or per \$1,000 of personal income. In recent years, property values have increased significantly resulting in a corresponding increase in property tax assessments. In response, many states have implemented various property tax relief initiatives in an effort to reduce the property tax burden. The tables compare the property taxes on equally valued homes in similar size North Dakota cities as well as from neighboring states. Neighboring states' property taxes on similarly valued residences appear less than North Dakota's because those states provide a homestead

credit for all owner-occupied residential property. North Dakota's homestead credit is available only to elderly and disabled persons with limited income.

Rankings (as shown on the following page) based on collections offer insight into overall tax levels. However, further analysis is needed to see the details of how state tax systems differ. Property taxes may vary by property classification and different types of property may be taxed or excluded. Some states, such as Wyoming, use the property tax to tax mineral wealth while states like North Dakota levy separate severance taxes. In Alaska, because of its oil reserves fund, residents receive annual payments of about \$1,000 per person.

### Property Taxes on an Owner Occupied Home in North Dakota Payable in 2004

#### \$70,000 Home

<u>City</u>	<u>Tax Amount*</u>
Bowman	\$958
Carrington	\$1,292
Grafton	\$1,599
Kenmare	\$1,285
Lisbon	\$1,474
Rugby	\$1,354
Washburn	\$964

#### \$100,000 Home

<u>City</u>	<u>Tax Amount*</u>
Bismarck	\$2,024
Devils Lake	\$2,160
Dickinson	\$1,991
Fargo	\$2,080
Grand Forks	\$2,216
Jamestown	\$2,251
Mandan	\$2,150
Minot	\$2,026
Valley City	\$2,121
Wahpeton	\$2,185
West Fargo	\$1,884
Williston	\$2,250

\* Calculations assume taxes are paid by February 15, allowing the taxpayer a 5% discount.

SOURCE: Survey by North Dakota Office of State Tax Commissioner, Property Tax Division, June 2004.

### Property Taxes on a \$100,000 Owner Occupied Home in Neighboring States Payable in 2004

SOUTH DAKOTA <sup>1</sup>		MONTANA <sup>2</sup>		MINNESOTA <sup>3</sup>	
City	Tax Amount	City	Tax Amount	City	Tax Amount
Aberdeen	\$ 1,980	Miles City	\$ 1,600	Bemidji	\$ 1,307
Rapid City	1,850	Great Falls	1,161	St. Cloud	929
Sioux Falls	1,590	Billings	1,320	Minneapolis	1,294

(1) Owner-occupied residences receive a 30% tax break.

(2) 31% homestead credit for all residential property

(3) After \$282 homestead credit.

SOURCE: Survey by North Dakota Office of State Tax Commissioner, Property Tax Division

## Per Capita State & Local Property Taxes 2002

<u>Rank</u>	<u>State</u>	<u>Amount</u>
1	New Jersey	\$1,872
2	Connecticut	1,733
3	New Hampshire	1,703
4	Maine	1,477
5	District of Columbia	1,405
6	New York	1,402
7	Wyoming	1,387
8	Rhode Island	1,369
9	Massachusetts	1,358
10	Vermont	1,337
11	Alaska	1,295
12	Illinois	1,261
13	Wisconsin	1,189
14	Texas	1,128
15	Minnesota	1,038
16	Nebraska	1,012
17	Maryland	993
18	Iowa	980
19	Michigan	975
20	Indiana	971
21	Washington	954
22	Florida	944
23	Montana	937
24	Ohio	933
25	Kansas	931
26	Colorado	925
27	Virginia	921
28	Oregon	892
29	Pennsylvania	885
30	South Dakota	879
31	California	864
<b>32</b>	<b>NORTH DAKOTA</b>	<b>840</b>
33	Nevada	786
34	Arizona	782
35	Georgia	776
36	South Carolina	754
37	Idaho	714
38	Missouri	684
39	North Carolina	653
40	Utah	612
41	Tennessee	596
42	Mississippi	574
43	West Virginia	499
44	Delaware	496
45	Hawaii	496
46	Kentucky	483
47	Louisiana	434
48	Oklahoma	425
49	New Mexico	408
50	Arkansas	371
51	Alabama	329
	US	\$971

SOURCE: US Census Bureau - State & Local Government Finances by Level of Government and by State 2001-2002, as of July 16, 2004, [www.census.gov/govs/www/estimate02.html](http://www.census.gov/govs/www/estimate02.html)

## Per \$1,000 of Personal Income State & Local Property Taxes 2002

<u>Rank</u>	<u>State</u>	<u>Amount</u>
1	Maine	\$53.00
2	New Hampshire	50.00
3	New Jersey	47.00
4	Vermont	45.00
5	Wyoming	45.00
6	Rhode Island	44.00
7	Connecticut	41.00
8	Wisconsin	40.00
9	Alaska	39.00
10	New York	39.00
11	Texas	39.00
12	Illinois	38.00
13	Montana	38.00
14	Iowa	35.00
15	Massachusetts	35.00
16	Nebraska	35.00
17	Indiana	35.00
18	Michigan	33.00
19	South Dakota	33.00
20	Kansas	32.00
21	Ohio	32.00
22	Florida	32.00
<b>23</b>	<b>NORTH DAKOTA</b>	<b>31.00</b>
24	Minnesota	31.00
25	Oregon	31.00
26	District of Columbia	30.00
27	Arizona	30.00
28	South Carolina	30.00
29	Washington	29.00
30	Pennsylvania	28.00
31	Virginia	28.00
32	Idaho	28.00
33	Colorado	27.00
34	Maryland	27.00
35	Georgia	27.00
36	California	26.00
37	Nevada	26.00
38	Mississippi	25.00
39	Utah	25.00
40	Missouri	24.00
41	North Carolina	23.00
42	Tennessee	22.00
43	West Virginia	21.00
44	Kentucky	19.00
45	Louisiana	17.00
46	Hawaii	17.00
47	New Mexico	16.00
48	Oklahoma	16.00
49	Arkansas	16.00
50	Delaware	15.00
51	Alabama	13.00
	US	\$31.00

SOURCE: US Census Bureau and Department of Commerce, Bureau of Economic Analysis, Annual State Personal Income, July 2004, [www.bea.doc.gov/bea/regional/spi/](http://www.bea.doc.gov/bea/regional/spi/)

# FUEL TAXES

## CURRENT LAW

### Imposition, Rates and Administration

**Motor Vehicle Fuel Tax (Gasoline and Gasohol).** A motor vehicle fuel tax of 21 cents per gallon is imposed on motor vehicle fuel (gasoline and gasohol) sold to retailers and consumers.

Consumers who paid the 21 cent per gallon tax but used the fuel in nonlicensed equipment for agricultural or industrial purposes may obtain a partial refund.

Eight cents per gallon is withheld from farmers' refunds. Two cents is deposited into the Agricultural Fuel Tax Fund to promote the use of agricultural products, one cent is deposited into the Ethanol Production Fund for North Dakota ethanol plant incentives, four cents is deposited into an Agricultural Research Fund, and one cent is retained in the Township Highway Aid Fund.

One and one-half cents per gallon is withheld from industrial users' refunds. One-half cent is deposited into the Agricultural Fuel Tax Fund and one cent is retained in the Township Highway Aid Fund.

The state and political subdivisions may obtain a refund of 20 cents per gallon on all motor vehicle fuel used for construction, reconstruction, and maintenance of roads and highways. In this case, one cent is retained in the Township Highway Aid Fund.

**Special Fuels Taxes.** Special fuels include diesel, kerosene, heating fuel, compressed natural gas (CNG), and liquefied petroleum gas (LPG) known as propane. A special fuels tax of 21 cents per gallon is imposed on all undyed (not red) diesel fuels. The tax also applies to kerosene, CNG, and LPG sold for use in licensed vehicles.

A 2% special fuels excise tax is imposed on dyed (red) diesel fuels and heating fuels, and on kerosene and LPG sold for uses other than in a licensed motor vehicle.

The 21 cents per gallon and the 2% special fuels excise tax are not refundable. Consumers are urged to BUY-RIGHT; i.e. purchase dyed (red) diesel fuel subject to the 2% special fuels excise tax in lieu of the 21 cents per gallon tax.

**Aviation Fuel Tax.** The aviation fuel tax is imposed on the sale of aviation gasoline and jet fuels at a rate of 8 cents per gallon. Consumers qualify for a refund of the 8 cents per gallon tax. If a refund is granted, the fuel becomes subject to a 4% excise tax on the purchase price of the fuel. The 4% excise tax is deducted from the refund claim at the time of refund.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**1977 Session.** The motor vehicle fuel tax and the special fuels tax rates were increased from 7 cents to 8 cents per gallon.

**1979 Session.** The legislature enacted a 4 cents per gallon tax rate for alcohol blended fuel.

**1983 Session.** The motor vehicle fuel tax and the special fuels tax rates were increased from 8 cents to 13 cents per gallon. These rates were reduced for alcohol blended fuel by 4 cents per gallon through December 31, 1983; 5 cents per gallon for calendar year 1984; 6 cents per gallon for calendar year 1985; and 4 cents per gallon from January 1, 1986 through June 30, 1992.

**1985 Session.** The reduction for alcohol blended fuel was amended to 8 cents per gallon for July 1, 1985 through June 30, 1987 and 4 cents per gallon for July 1, 1987 through December 31, 1992.

**1987 Session.** The motor vehicle fuel tax and special fuels tax rates were increased from 13 cents to 17 cents per gallon.

**1989 Session.** The motor vehicle fuel tax rate was increased from 17 cents to 20 cents per gallon and the special fuels tax rate was increased from 17 cents to 19 cents per gallon. The rate reduction for alcohol blended fuel was suspended for July 1, 1989 through June 30, 1991 and replaced with an ethanol production subsidy. An additional 1½ cents was withheld from farmers' refunds and deposited in the Agricultural Fuel Tax Fund. Enabling legislation was passed to allow the director of the new Department of Transportation to enter the International



Fuel Tax Agreement (IFTA) for base state fuel tax licensing and reporting. The State Tax Commissioner retained non-IFTA importer for use tax administration.

**1989 Referral Election.** The tax rate increases passed by the 1989 Legislature were rejected in a Special Election. The tax rates for the motor vehicle fuel tax and the special fuels tax remained 17 cents per gallon.

**1991 Session.** An additional 2 cents per gallon was withheld from farmers' refunds and deposited in the Highway Tax Distribution Fund for incentives to North Dakota ethanol plants. The rate reduction for alcohol blended fuel was eliminated.

**1993 Session.** The legislature provided for a "triggered" increase in the motor vehicle fuel tax and special fuels tax depending on the availability of federal highway matching funds. Under this provision the rate increased from 17 cents to 18 cents per gallon for the period December 1, 1993 through December 31, 1995.

**1995 Session.** The legislature continued to "trigger" changes in the motor vehicle fuel tax and special fuels tax rates depending on the availability of additional federal highway matching funds. The rate increased to 20 cents per gallon for the period January 1, 1996 through December 31, 1997.

**1997 Session.** The legislature provided for a permanent \$.20 per gallon motor vehicle fuel tax and special fuels tax through December 31, 1999 and added a provision to the special fuels tax chapter allowing the 2% special fuels excise tax to be charged on fuel dyed for federal motor fuel tax exemption purposes. The legislature also revised refund requirements to allow refunds of motor vehicle fuel tax and special fuels tax to industrial fuel users when the fuel was used in nonlicensed equipment on publicly funded projects. An additional 4 cents per gallon is withheld from agricultural consumer refund claims for deposit into an agricultural research fund, and the amount withheld for ethanol production incentives was lowered from 2 cents per gallon to 1 cent per gallon.

**1999 Session.** The legislature reenacted the motor vehicle fuel and special fuels tax statutes and increased the taxes to 21 cents per gallon. The legislature also repealed the refund provisions for special fuel taxes and enacted a dyed fuel enforcement program. Dyed diesel fuel may not be used in licensed motor vehicles, and in the event of a violation, administrative fees may be assessed.

**2001 Session.** The legislature enacted a decrease in special fuels taxes on diesel fuel containing at least two percent biodiesel fuel by weight. The decrease is contingent upon the opening of a biodiesel refining facility in this state with a production capacity of at least ten million gallons biodiesel per year. If triggered, the tax on undyed diesel fuel containing biodiesel is reduced by one and five-hundredths cents per gallon, and the tax on dyed diesel fuel containing biodiesel is reduced to one and nine-tenths percent.

## Distribution of Revenue

Tax Types	
<b>Motor Vehicle Fuel Tax</b> (21¢ per gallon):	
20¢	Highway Tax Distribution Fund
1¢	Township Highway Aid Fund
Withheld from farmers' refunds (8¢ per gallon):	
1¢	Township Highway Aid Fund
2¢	Agricultural Fuel Tax Fund
1¢	Ethanol Production Fund
4¢	Agricultural Research Fund
Withheld from Industrial users' refunds (1½¢ per gallon):	
1¢	Township Highway Aid Fund
½¢	Agricultural Fuel Tax Fund
<b>Special Fuels Tax</b> (21¢ per gallon):	
20¢	Highway Tax Distribution Fund
1¢	Township Highway Aid Fund
<b>Special Fuels Excise Tax</b> (2% of sales price):	
100% Highway Tax Distribution Fund	
<b>Aviation Fuel Tax</b> (8¢ per gallon):	
8¢	Aeronautics Commission Special Fund
Withheld from refunds:	
4% Aviation fuel excise tax	
<b>Aviation Fuel Excise Tax</b> (4% of sales price):	
100% Aeronautics Commission Special Fund	
Highway Tax Distribution Fund	
<ul style="list-style-type: none"> <li>• 63% allocated to state highway purposes</li> <li>• 37% allocated to the counties and cities</li> </ul>	

## Fuel Taxes and Fees Disbursements

Fiscal Year	Total Disbursement	Highway Distribution Fund	Township Highway Aid Fund	Agricultural Fuel Tax Fund	Agricultural Research Fund	Aeronautics Commission	State General Fund	Petroleum Cleanup Fund	Refund Reserve & Cash Bonds	Standing Rock Sioux Tribe
1994	89,953,107	79,058,285	4,885,468	535,407		557,334	727,363	107	4,189,142	
1995	94,164,360	82,897,311	4,953,507	496,129		636,142	717,795	104	4,463,372	
1996	101,399,651	90,701,935	5,116,927	453,723		671,339	753,321	2,291	3,700,115	
1997	110,151,220	98,959,035	5,194,170	388,576		418,576	756,197	0	4,434,327	
1998	112,566,368	98,871,799	5,337,068	380,824	606,790	617,768	759,724	0	5,992,395	
1999	110,664,269	96,651,826	5,270,153	359,554	714,787	403,793	756,137	0	6,407,500	100,519
2000	114,861,740	103,873,179	5,193,618	335,040	666,253	752,894	877,782	0	2,884,500	278,474
2001	115,907,986	104,822,117	5,119,576	308,263	612,415	665,638	876,844	0	3,175,500	327,633
2002	114,131,923	103,789,792	5,092,540	286,162	568,231	738,856	864,879	0	2,448,000	343,463
2003	117,605,841	107,425,949	5,229,933	254,788	505,763	693,293	863,943	0	2,310,000	322,172

SOURCE: Office of State Tax Commissioner.

## Motor Vehicle Fuels - Gallons Taxed

Fiscal Year	Total Gallons	Refund	Net Gallons
1994	362,627,362	20,541,221	342,086,141
1995	359,047,667	19,987,851	339,059,816
1996	364,861,501	18,270,126	346,591,375
1997	366,144,221	16,171,990	349,972,231
1998	365,493,671	20,189,232	345,304,439
1999	365,389,457	18,854,167	346,535,290
2000	364,472,028	17,610,696	346,861,332
2001	362,611,882	16,117,349	346,494,533
2002	359,176,664	14,965,893	344,210,771
2003	368,973,065	13,418,634	355,554,431

SOURCE: Office of State Tax Commissioner.

## Special Fuels - Gallons Taxed - Per Gallon Tax Rate

Fiscal Year	Total	Refund	Net
1994	138,876,889	9,614,663	129,262,226
1995	150,793,853	8,196,113	142,597,740
1996	155,685,538	6,890,871	148,794,667
1997	162,359,948	8,002,315	154,357,633
1998	169,591,976	12,449,849	157,142,127
1999	168,218,146	11,715,815	156,502,331
2000	162,411,793	4,658,342	157,753,451
2001	159,884,499	341,613	159,542,886
2002	159,899,715	0	159,899,715
2003	166,462,335	0	166,462,335

SOURCE: Office of State Tax Commissioner.

## Special Fuels - Gallons Taxed - 2% Excise Tax Rate

Fiscal Year	Total
1994	322,942,545
1995	317,878,656
1996	345,454,406
1997	345,955,287
1998	334,633,528
1999	314,146,274
2000	294,285,846
2001	317,956,120
2002	326,123,925
2003	314,124,119

# State Motor Fuel Tax Rates

## January 1, 2004

	GASOLINE			DIESEL FUEL			GASOHOL			Notes
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	
Alabama <sup>(1)</sup>	16.0	2.0	18.0	17.0	2.0	19.0	16.0	2.0	18.0	Inspection fee
Alaska	8.0		8.0	8.0		8.0	0.0		0.0	
Arizona	18.0		18.0	18.0		18.0	18.0		18.0	<sup>(3)</sup>
Arkansas	21.5		21.5	22.5		22.5	21.5		21.5	
California	18.0		18.0	18.0		18.0	18.0		18.0	Sales tax applicable
Colorado	22.0		22.0	20.5		20.5	22.0		22.0	
Connecticut	25.0		25.0	26.0		26.0	24.0		24.0	
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.5% GRT <sup>(5)</sup>
Florida <sup>(2)</sup>	4.0	10.3	14.3	16.7	10.3	27.0	4.0	10.3	14.3	Sales tax added to excise <sup>(2)</sup>
Georgia	7.5		7.5	7.5		7.5	7.5		7.5	Sales tax applicable (3%)
Hawaii <sup>(1)</sup>	16.0		16.0	16.0		16.0	16.0		16.0	Sales tax applicable
Idaho	25.0		25.0	25.0		25.0	22.5		22.5	<sup>(7)</sup>
Illinois <sup>(1)</sup>	19.0	0.8	19.8	21.5	0.8	22.3	19.0	0.8	19.8	Sales tax appl., env. fee <sup>(3)</sup>
Indiana	18.0		18.0	16.0		16.0	18.0		18.0	Sales tax applicable <sup>(3)</sup>
Iowa	20.3		20.3	22.5		22.5	19.0		19.0	
Kansas	24.0		24.0	26.0		26.0	24.0		24.0	
Kentucky	15.0	1.4	16.4	12.0	1.4	13.4	15.0	1.4	16.4	Environmental fee <sup>(4)(3)</sup>
Louisiana	20.0		20.0	20.0		20.0	20.0		20.0	
Maine	24.6		24.6	25.7		25.7	24.6		24.6	<sup>(5)</sup>
Maryland	23.5		23.5	24.25		24.25	23.5		23.5	
Massachusetts	21.0		21.0	21.0		21.0	21.0		21.0	
Michigan	19.0		19.0	15.0		15.0	19.0		19.0	Sales tax applicable
Minnesota	20.0		20.0	20.0		20.0	20.0		20.0	
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee
Missouri	17.0	0.03	17.03	17.0	0.03	17.03	15.0	0.03	15.03	Inspection fee
Montana	27.0		27.0	27.75		27.75	27.0		27.0	
Nebraska	24.8	0.9	25.7	24.8	0.9	25.7	24.8	0.9	25.7	Petroleum fee <sup>(5)</sup>
Nevada <sup>(1)</sup>	24.0		24.0	27.0		27.0	24.0		24.0	
New Hampshire	18.0	1.5	19.5	18.0	1.5	19.5	18.0	1.5	19.5	Oil discharge cleanup fee
New Jersey	10.5	4.0	14.50	13.5	4.0	17.50	10.5	4.0	14.50	Petroleum fee
New Mexico	17.0	1.9	18.9	18.0	1.9	19.9	17.0	1.9	18.9	Petroleum loading fee
New York	8.0	14.6	22.6	8.0	12.85	20.85	8.0	14.6	22.6	Petro. Tax & Sales tax applicable
North Carolina	24.3	0.25	24.55	24.3	0.25	24.55	24.3	0.25	24.55	<sup>(4)</sup> Inspection tax
<b>NORTH DAKOTA</b>	<b>21.0</b>		<b>21.0</b>	<b>21.0</b>		<b>21.0</b>	<b>21.0</b>		<b>21.0</b>	
Ohio <sup>(8)</sup>	24.0		24.0	24.0		24.0	24.0		24.0	Plus 3 cents commercial
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee
Oregon <sup>(1)</sup>	24.0		24.0	24.0		24.0	24.0		24.0	
Pennsylvania	12.0	14.2	26.2	12.0	19.2	31.2	12.0	14.2	26.2	Oil franchise tax
Rhode Island	30.0	1	31.0	30.0	1	31.0	30.0	1	31.0	LUST tax
South Carolina	16.0		16.0	16.0		16.0	16.0		16.0	
South Dakota <sup>(1)</sup>	22.0		22.0	22.0		22.0	20.0		20.0	
Tennessee <sup>(1)</sup>	20.0	1.4	21.4	17.0	1.4	18.4	20.0	1.4	21.4	Petroleum Tax & Envir. fee
Texas	20.0		20.0	20.0		20.0	20.0		20.0	
Utah	24.5		24.5	24.5		24.5	24.5		24.5	
Vermont	19.0	1.0	20.0	25.0	1.0	26.0	19.0	1.0	20.0	Petroleum cleanup fee
Virginia <sup>(1)</sup>	17.5		17.5	16.0		16.0	17.5		17.5	<sup>(6)</sup>
Washington	28.0		28.0	28.0		28.0	28.0		28.0	0.5% privilege tax
West Virginia	20.5	4.85	25.35	20.5	4.85	25.35	20.5	4.85	25.35	Sales tax added to excise
Wisconsin <sup>(5)</sup>	28.5		28.5	28.5		28.5	28.5		28.5	<sup>(5)</sup>
Wyoming	13.0	1	14.0	13.0	1	14.0	13.0	1	14.0	License tax
Dist. of Columbia	20.0		20.0	20.0		20.0	20.0		20.0	
Federal	18.3	0.1	18.4	24.3	0.1	24.4	13.0	0.1	13.1	<sup>(7)</sup> LUST tax

SOURCE: Compiled by Federation of Tax Administrators from various sources.

<sup>(1)</sup> Tax rates do not include local option taxes. In AL, 1-3 cents; HI, 8.8 to 18.0 cents; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 1.75 to 7.75 cents; OR, 1 to 3 cents; SD and TN, 1 cent; and VA 2%.

<sup>(2)</sup> Local taxes for gasoline and gasohol vary from 9.7 cents to 17.7 cents. Plus a 2.07 cent per gallon pollution tax.

<sup>(3)</sup> Carriers pay an additional surcharge equal to AZ-8 cents, IL-6.3 cents (g) 6.0 cents (d), IN-11 cents, KY-2%(g) 4.7% (d).

<sup>(4)</sup> Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9%; and NC, 17.5 cents + 7%.

<sup>(5)</sup> Portion of the rate is adjustable based on maintenance costs, sales volume, or cost of fuel to state government.

<sup>(6)</sup> Large trucks pay an additional 3.5 cents.

<sup>(7)</sup> Tax rate is reduced by the percentage of ethanol used in blending (reported rate assumes the maximum 10% ethanol).

<sup>(8)</sup> Tax rate is scheduled to increase to 26 cents per gallon on July 1, 2004.

# CIGARETTE AND TOBACCO TAXES

## CURRENT LAW

### Cigarette Tax

#### Imposition and Rates

The cigarette tax is levied at two different tax rates. Cigarettes weighing less than three pounds per thousand are taxed at 22 mills per cigarette or 44¢ for a common package of 20, and 55¢ for a package of 25. Cigarettes weighing more than three pounds per thousand are taxed at 22½ mills per cigarette. Gray market or repatriated cigarettes may not be sold or possessed in North Dakota. "Gray market" or "repatriated" cigarettes are those cigarettes manufactured and packaged in the U.S. for the specific purpose of being exported with intent to be sold outside the U.S., and are brought back illegally into the country and sold. All cigarettes sold must be in packages of 20 or more cigarettes.

Roll-your-own cigarette tobacco is taxed at the cigarette rate. One cigarette equals .09 ounces of roll-your-own tobacco. Sales of bulk roll your own cigarette tobacco are converted to taxable cigarettes. Only tobacco advertised as roll your own is taxed at the cigarette rate.

Both wholesalers and dealers must be licensed by the Attorney General. Wholesalers pay the tax with monthly reports filed with the Tax Commissioner. For administrative compensation, wholesalers who file and pay on time may deduct 1½% of the tax due, up to a maximum of \$100 per month.

#### Distribution of Revenue

Three cents of the 44¢ per package are distributed to the cities based on population and the remainder goes to the State General Fund. Of the 55¢ on the larger packages, 3¾¢ goes to the cities with the remainder to the State General Fund.

### Tobacco Products Tax

#### Imposition and Rates

All tobacco products other than cigarettes and specific roll-your-own tobacco, such as pipe tobacco, chewing tobacco,

snuff and cigars are subject to a tobacco products tax. Pipe tobacco and cigars are taxed at 28% of the wholesale purchase price. Snuff is taxed at 60 cents per ounce and chewing tobacco taxed at 16 cents per ounce. The tobacco products tax is administered in a manner similar to the cigarette tax.

#### Distribution of Revenue

Revenue from the tobacco products tax is placed in the State General Fund.

### Tribal Cigarette And Tobacco Tax

The Standing Rock Sioux Tribe levies a cigarette and tobacco tax on all Native American retailers operating on the Standing Rock Sioux Reservation. The tax rates are identical to the state tax rates. The Tax Commissioner acts as the agent of the tribe to collect the tax. Seventy-five percent of collections, less a 3% administrative fee, is returned to the tribe. Twenty-five percent plus the administrative fee is deposited in the State General Fund.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**1983 Session.** The cigarette tax was increased from 6 mills to 9 mills per cigarette. This increased the cigarette tax from 12¢ to 18¢ per package of 20.

**1987 Session.** The cigarette tax was increased from 9 to 13½ mills per cigarette, or from 18¢ to 27¢ per package of 20. The tobacco products tax was increased from 11% to 20% of the wholesale purchase price.

**1989 Session.** The cigarette tax was increased from 13½ to 15 mills per cigarette, or from 27¢ to 30¢ per package of 20. The tobacco products tax was increased from 20% to 25% of the wholesale purchase price.

**1991 Session.** The cigarette tax was decreased from 15 mills to 14½ mills per cigarette, or from 30¢ to 29¢ per package of 20. The tobacco products tax was decreased from 25% to 22% of the wholesale purchase price. Cigarette stamp requirements were repealed and replaced with monthly reports and payments.

**1993 Session.** The cigarette tax was increased from 14½ to 22 mills per cigarette, or from 29¢ to 44¢ per package of 20. The tobacco products tax was increased from 22% to 28% of the wholesale purchase price.

**1993 Agreement.** The Tax Commissioner and the Standing Rock Sioux Tribe signed an agreement to allow the commissioner to act as an agent of the tribe for the collection of a tribal cigarette and tobacco tax.

**1999 Session.** The sale of gray market cigarettes was prohibited, taxation of roll-your-own tobacco was moved from Other Tobacco Products to taxation as a cigarette and a minimum package size was established at 20 cigarettes per package. N.D.C.C. § 51-25 was enacted and requires the Tax Commissioner to accumulate information on purchases of cigarettes from non-participating

manufacturers in the cigarette Master Settlement Agreement.

**2001 Session.** The method of taxing snuff and chewing tobacco was changed from a percentage of the wholesale price to a weight based value. Snuff is taxed at 60 cents per ounce and chewing tobacco is taxed at 16 cents per ounce. A change in the definition of Other Tobacco Products removed cigarette papers from the tobacco products tax. Cigars and pipe tobacco remain taxable at 28% of the whole purchase price.

**2003 Session.** The sale of "beedie" cigarettes was banned. Beedies are a product containing tobacco wrapped in a temburni leaf. Legislation prohibiting any dealer or distributor from knowingly selling or distributing any product not in compliance with N.D.C.C. § 51-25-02 was enacted.

## Comparison of State Tobacco Products Taxes

January 1, 2004

State	Tax Rate/Base <sup>(1)</sup>	State	Tax Rate/Base <sup>(1)</sup>
Alabama		Michigan	20% Wholesale Price
<i>Cigars</i> <sup>(2)</sup>	1.5¢-20.25¢/10 cigars	Minnesota	35% Wholesale Price
<i>Tobacco/Snuff</i>	0.6¢-4.4¢/ounce	Mississippi	15% Manufactures Price
Alaska	75% Wholesale Price	Missouri	10% Manufactures Price
Arizona		Montana	25.0% Wholesale Price
<i>Cigars</i> <sup>(2)</sup>	26.3¢-\$2.60/20 cigars	Nebraska	20% Wholesale Price
<i>Tobacco/Snuff</i>	13.3¢/ounce	Nevada	30% Wholesale Price
Arkansas	32% Manufactures Price	New Hampshire	19% Wholesale Price
California <sup>(3)</sup>	46.76% Wholesale Price	New Jersey	30% Wholesale Price
Colorado	20% Manufactures Price	New Mexico	25% Product Value
Connecticut <sup>(5)</sup>	20% Wholesale Price	New York	37% Wholesale Price
Delaware	15% Wholesale Price	North Carolina	2% Wholesale Price
Florida		<b>NORTH DAKOTA</b>	
<i>Tobacco/Snuff</i>	25% Wholesale Price	<i>Cigars &amp; Pipe Tobacco</i>	28% Wholesale Price
Georgia		<i>Chew Tobacco/Snuff</i>	16¢-60¢/ounce
<i>Little Cigars</i>	2.5¢/10 cigars	Ohio	17% Wholesale Price
<i>Other Cigars</i>	23% Wholesale Price	Oklahoma	
Hawaii	40% Wholesale Price	<i>Cigars</i> <sup>(2)</sup>	9¢-30¢/10 cigars
Idaho	40% Wholesale Price	<i>Tobacco/Snuff</i>	30%-40% factory list price
Illinois	18% Wholesale Price	Oregon	65% Wholesale Price
Indiana	15% Wholesale Price	Rhode Island	30% Wholesale Price
Iowa	22% Wholesale Price	South Carolina	5% Manufactures Price
Kansas	10% Manufactures Price	South Dakota	10% Wholesale Price
Louisiana		Tennessee	6.6% Wholesale Price
<i>Cigars</i>	8%-20% Manufacture Price	Texas	
<i>Tobacco/Snuff</i>	33% Manufactures Price	<i>Cigars</i> <sup>(2)</sup>	1¢-15¢/10 cigars
Maine		<i>Tobacco/Snuff</i>	35.213% Manufactures Price
<i>Chewing Tob./Snuff</i>	62% Wholesale Price	Utah	35% Manufactures Price
<i>Smoking Tob./Cigars</i>	16% Wholesale Price	Vermont	41% Manufactures Price
Maryland	15% Wholesale Price	Washington	129.42% Wholesale Price
Massachusetts		West Virginia	7% Wholesale Price
<i>Smokeless Tob.</i>	90% Wholesale Price	Wisconsin	25% Wholesale Price
<i>Smoking Tob./Cigars</i>	30% Wholesale Price	Wyoming <sup>(4)</sup>	20% Wholesale Price

SOURCE: Compiled by Federation of Tax Administrators from various sources.

<sup>(1)</sup> The volume based tax rates were converted to cents per 10 cigars or per ounce for consistency.

<sup>(2)</sup> Tax rate on cigars varies, based on the selling price.

<sup>(3)</sup> Tax rate is adjusted annually by the state, effective July 1st of each year

<sup>(4)</sup> or 10% of the retail price.

<sup>(5)</sup> Snuff tobacco taxed at 40 cents per ounce.

## Cigarette Tax and Tobacco Tax Collections

<u>Fiscal Year</u>	<u>Total Collections</u>	<u>Tobacco Tax (General Fund)</u>	<u>Cigarette Tax (General Fund)</u>	<u>Cigarette Tax (Cities)</u>	<u>Cigarette and Tobacco Tax (Tribal)</u>
1994	23,932,732	1,419,381	20,958,608	1,497,925	56,818
1995	24,093,508	1,512,791	20,974,207	1,532,674	73,835
1996	24,403,150	1,634,213	21,149,970	1,545,546	73,421
1997	23,872,859	1,746,105	20,554,980	1,502,113	69,661
1998	24,293,434	1,847,905	20,846,708	1,523,488	75,534
1999	23,026,300	1,891,262	19,619,122	1,440,232	75,684
2000	22,825,622	1,983,222	19,359,086	1,414,712	68,602
2001	21,777,568	2,040,283	18,299,504	1,339,190	98,591
2002	21,541,087	2,233,271	17,913,354	1,313,836	80,626
2003	20,432,947	2,276,308	16,873,241	1,220,881	62,517
2004	21,134,603	2,297,901	17,477,510	1,284,013	75,179
2005 est.	20,326,000	2,321,000	16,707,000	1,223,000	75,000

SOURCE: North Dakota Office of State Tax Commissioner

## Comparison of State Cigarette Taxes January 1, 2004

<u>State</u>	<u>Cents Per Pack</u>	<u>State</u>	<u>Cents Per Pack</u>	<u>State</u>	<u>Cents Per Pack</u>
New Jersey	205	New Mexico	91	Minnesota	48
Rhode Island	171	California	87	<b>NORTH DAKOTA</b>	<b>44</b>
Massachusetts	151	Nevada	80	Texas	41
Connecticut	151	Kansas	79	Georgia	37
New York <sup>(1)</sup>	150	Wisconsin	77	Louisiana	36
Washington	142.5	Montana	70	Iowa	36
Pennsylvania <sup>(3)</sup>	100	Utah	69.5	Florida	33.9
Hawaii	130	Nebraska	64	Oklahoma	23
Michigan	125	Wyoming	60	Tennessee <sup>(1) (2)</sup>	20
Vermont	119	Arkansas <sup>(2)</sup>	59	Colorado	20
Oregon	118	Idaho	57	Mississippi	18
Arizona	118	Indiana	55.5	Missouri <sup>(1)</sup>	17
Maryland	100	West Virginia	55	Alabama <sup>(1)</sup>	16.5
Maine	100	Ohio	55	South Carolina	7
DC	100	Delaware	55	North Carolina	5
Alaska	100	South Dakota	53	Kentucky <sup>(2)</sup>	3
Illinois <sup>(1)</sup>	98	New Hampshire	52	Virginia <sup>(1)</sup>	2.5
				U.S. (median)	60.0

SOURCE: Compiled by Federation of Tax Administrators from various sources.

<sup>(1)</sup> Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; NYC, 1.50¢; TN, 1¢; and VA, 2¢ to 15¢.

<sup>(2)</sup> Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and 0.05¢ in TN. In AR, a \$1.25/1,000 cigarette fee is imposed.

<sup>(3)</sup> Pennsylvania \$1.00 until January 7, 2004.



# ESTATE TAX

## CURRENT LAW

### Imposition and Rate

The estate tax is a tax on the value of an estate transferred at death.

North Dakota's estate tax is perpetually "federalized". North Dakota's definition of a deceased person's "taxable estate" is identical to the federal definition and North Dakota recognizes all federal exemptions and deductions.

North Dakota's estate tax is equivalent to the credit for state death taxes allowed on the federal estate tax return (or a percentage of that credit equal to the percentage of property located in North Dakota). On the federal return, the credit for state death taxes is allowed as a credit against the federal tax liability. The estate pays the amount of this credit to the state. This method of determining state estate taxes ensures that estates pay no more in total estate taxes than the estate's federal tax liability. The tax is payable without interest for 15 months from the date of death.

The estate tax is administered and collected by the Tax Commissioner.

### Distribution of Revenue

Revenue from the tax is distributed on a quarterly basis by the state to the counties and cities in which the property of the estate is located.

#### **Federal Legislation**

As a result of federal estate tax law changes, the North Dakota estate tax that is based on the state death tax credit allowable on the federal return will be phased out for estates of decedents whose death occurs after December 31, 2004. Future changes to the state or federal estate tax laws will determine whether North Dakota estate tax is due.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**1975 Session.** The definition of taxable estate is based on the federal definition. The estate tax was determined by subtracting the federal tax paid from the federal taxable estate, then computing a tax using a tax table established in the new law.

**1977 Session.** The legislature allowed the following state exemptions and deductions to the value of the federal taxable estate: an exemption of \$200,000, a deduction for federal estate taxes paid, and an exemption for certain gifted property. The legislature also provided that the tax was either the amount of tax credit for state death taxes on the federal return, or a tax computed by use of a tax table, whichever was greater.

**1979 Session.** The rate table was repealed and the law was amended so that the state estate tax is equal to the credit for state death taxes on the federal estate tax return.

**1991 Session.** The automatic estate tax lien was repealed.

**1997 Session.** The requirement for depositories to file an inventory of the contents of a safe deposit box and for the filing of a notice of transfer of the decedent's assets was repealed.

### Estate Tax Distributions

<u>Calendar Year</u>	<u>Total Distribution Counties and Cities</u>
1994	899,225
1995	2,292,775
1996	3,887,917
1997	5,966,199
1998	2,997,580
1999	7,072,691
2000	5,902,821
2001	5,228,513
2002	3,821,407
2003	4,590,132

SOURCE: State Treasurer's Office.

# FINANCIAL INSTITUTION TAX

## CURRENT LAW

### Imposition and Rates

The financial institution tax is imposed on banks, trust companies, building and loan associations, bank holding companies, production credit associations, leasing companies, and other financial institutions.

The financial institution tax is imposed on every financial institution for the privilege of transacting, or the actual transacting of, business in North Dakota and is based upon and measured by the financial institution's taxable income. If a financial institution conducts business both within and without North Dakota, the financial institution must apportion its business income to North Dakota according to the apportionment provisions.

The tax liability is determined by multiplying North Dakota taxable income by seven percent (7%), with a minimum tax of fifty dollars (\$50.00). This amount, less credits allowed is divided between the State General Fund and the financial institution tax distribution fund. The net tax payable to the State General Fund must be paid on or before April 15 of the year following the end of the taxable year. The net tax payable to the financial institution distribution fund must be paid on or before January 15 of the second year following the end of the taxable year. Both payments must be made to the Office of State Tax Commissioner.

If a financial institution elects and is granted Subchapter S corporation status for federal income tax purposes, the Subchapter S status is not recognized for financial institution tax purposes and the corporation must file a financial institution tax return and pay the tax. In this case, a shareholder—limited to an individual, estate or trust—is allowed an adjustment to income in computing the shareholder's North Dakota income tax liability. The adjustment, which is equal to the portion of the income passed through to the shareholder and subject to North Dakota income tax, prevents the financial institution's income from being taxed at the financial institution level and the individual, estate or trust level.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**1979 Session.** The 1% business privilege tax paid by individuals, estates, trusts, partnerships and corporations doing business in the state was repealed.

**1991 Session.** A state net operating loss was allowed to be carried forward. Out-of-state banks were allowed to acquire a North Dakota bank if the acquiring company was in a reciprocating state and the Tax Commissioner was authorized to determine a fair method of reporting income to North Dakota. Privilege taxes were authorized on North Dakota branches if the U.S. Congress authorized interstate branch banking.

**1995 Session.** Interstate banking, in-state branching, and interstate branching were authorized. A trust company was allowed to establish for itself and its subsidiaries places of business within or outside North Dakota.

**1997 Session.** Taxation of banks, trust companies and building or savings and loan associations was repealed and replaced with a financial institution tax.

**1999 Session.** Cities were provided authority to create "renaissance zones," which allowed opportunities for various income exemptions and tax credits for investments in approved renaissance zones.

**2001 Session.** An exemption was provided for income from property located in a renaissance zone and owned or leased for either a business or investment purpose. This exemption also extended to qualifying rehabilitations of residential or commercial property. The tax credit for investing in the preservation or renovation of historic property was changed to 25% of the investment, not to exceed \$250,000. The credit must be claimed in the year the work is completed. A December 31, 2004 sunset date for the credit was removed.

**2003 Session.** Financial institutions tax changed to maintain the deduction for federal income taxes paid. The deduction had previously been allowed by reference to the income tax law. The change was necessary because the deduction was repealed for income tax. For tax years after December 31, 1999, the exclusion for the North Dakota domestic dividend was repealed based on a North Dakota Supreme Court ruling.

## Financial Institution Tax\*

<u>Tax Year</u>	<u>Total</u>	<u>To Counties</u>	<u>To General Fund</u>
1997	\$9,497,300	\$6,895,541	\$2,601,756
1998	9,949,737	7,132,518	2,817,219
1999	10,521,920	7,515,657	3,006,263
2000	10,800,647	7,714,748	3,085,899
2001	10,195,583	6,152,158	4,043,425
2002	10,627,138	6,808,992	3,818,146

\* The tax year 2003 collections are not final at the time of printing this publication.

In general, the tax liability of the financial institution is determined by multiplying North Dakota taxable income by 7%. This amount, which may not be less than \$50.00, is divided between the state general fund and the financial institution tax distribution fund. The general fund receives 2/7 of the tax, while the financial institution tax distribution fund receives 5/7 of the tax.

The tax collected in the financial institution tax distribution fund is distributed to the counties on or before March 1 each year.

# INSURANCE PREMIUM TAX

## CURRENT LAW

### Imposition, Rates and Administration

Every insurance company licensed to do business in North Dakota is subject to a premium tax on the gross amount of its annual premiums, membership fees, and policy fees received from North Dakota policyholders. The premium tax rate is 2% for life insurance, and 1¼% for accident, health, property, casualty and surplus lines of insurance. A company domiciled in another state may be charged retaliatory tax--the tax rate of the home state--if the rate in the home state is higher than North Dakota's applicable premium tax rate.

A minimum \$200 annual filing fee is required provided the total tax liability of an entity required to pay tax is less than \$200.

The insurance premium tax is administered by the State Insurance Commissioner and is collected quarterly.

### Exemptions and Credits

Gross receipts from annuities and from policies of benevolent and fraternal benefit companies are exempt. Credits against tax due are provided to insurers for the following situations:

- Assessment paid as a member of a comprehensive health association.
- Examination fees paid to the North Dakota Insurance Department.
- Ad valorem taxes on the premises occupied as the principal office in the state for over 50% of the year for which tax is paid.
- Investments in securities offered by a small business investment company created by the Myron G. Nelson Fund, Inc.
- Assessment paid to the Life and Health Insurance Guaranty Association.
- Insurers making or participating in incentive fund to make loans to low-risk businesses for primary sector business projects (N.D.C.C. ch. 26.1-50).

### Distribution of Revenue

Collections are deposited in the State General Fund. The legislature may appropriate insurance premium tax revenue to the Insurance Tax Distribution Fund.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**Before 1983.** Out-of-state insurance companies were subject to a 2½% premium tax. North Dakota insurance companies were subject to corporation income tax, rather than insurance premium tax.

**1983 Session.** Insurance companies doing business in the state, whether incorporated in North Dakota or any other state, became subject to the insurance premium tax and exempt from the corporation income tax. The legislature provided for a 2% rate for life insurance, ½% for accident and health insurance, and 1% for property, casualty and other types of insurance.

**1987 Session.** The legislature increased the insurance premium tax rate from ½% to 1¼% for accident and health insurance and from 1% to 1¼% for property, casualty and other insurance. A credit was created for investments in the Myron G. Nelson Fund, Inc.

**1989 Session.** The legislature increased the insurance premium tax rate from 1¼% to 1¾% for accident, health, property, casualty and other types of insurance.

**1991 Session.** The legislature adopted a \$200 annual filing fee for all insurance companies.

**1997 Session.** A credit was created for any insurance company making or participating in a loan under the North Dakota Low-Risk Incentive Fund (see N.D.C.C. ch. 26.1-50-05.)

**1999 Session.** The method for calculating a penalty for failure to pay tax was changed.

## Insurance Premium Tax Collections and Disbursements

<u>Fiscal Year</u>	<u>Total Collections</u>	<u>General Fund</u>	<u>Insurance Distribution Fund</u>
1994	20,754,641	18,124,492	2,630,149
1995	16,690,729	13,995,743	2,694,986
1996	19,578,122	16,978,122	2,600,000
1997	20,796,911	18,196,911	2,600,000
1998	19,957,574	17,357,574	2,600,000
1999	20,975,942	18,375,742	2,600,000
2000	21,893,086	19,293,086	2,600,000
2001	22,419,513	19,819,513	2,600,000
2002	25,999,204	23,347,204	2,652,000
2003	28,294,823	25,642,823	2,652,000

SOURCE: North Dakota Insurance Department

## Insurance Premium Tax Collections Per Capita - Fiscal Year 2003

<u>Rank</u>	<u>State</u>	<u>Per Capita Insurance Premium Taxes</u>
1	Delaware	\$88
2	Nevada	\$78
3	Louisiana	\$74
4	Kentucky	\$72
5	Vermont	\$72
6	Alaska	\$67
7	Connecticut	\$65
8	South Dakota	\$65
9	Hawaii	\$61
10	Maine	\$60
11	Montana	\$60
12	New Hampshire	\$58
13	Massachusetts	\$57
14	West Virginia	\$56
15	Tennessee	\$55
16	California	\$53
17	Idaho	\$52
18	Washington	\$52
19	Alabama	\$51
20	North Carolina	\$50
21	Texas	\$50
22	Iowa	\$48
23	Rhode Island	\$48
24	Oklahoma	\$46
25	Kansas	\$45
26	Minnesota	\$45
27	<b>NORTH DAKOTA</b>	<b>\$45</b>
28	Pennsylvania	\$45
29	Virginia	\$45
30	Maryland	\$43
31	Mississippi	\$43
32	New Jersey	\$43
33	Missouri	\$42
34	Utah	\$42
35	Arizona	\$41
36	Colorado	\$38
37	Georgia	\$37
38	South Carolina	\$35
39	Arkansas	\$33
40	New York	\$33
41	Ohio	\$33
42	Wyoming	\$32
43	Florida	\$30
44	Indiana	\$29
45	New Mexico	\$28
46	Illinois	\$26
47	Michigan	\$23
48	Nebraska	\$22
49	Wisconsin	\$21
50	Oregon	\$16
	US Average	\$43

SOURCE: US Dept. of Commerce, Census Bureau  
Department.

# LIQUOR AND BEER TAXES

## CURRENT LAW

### Imposition and Administration

The tax on liquor and beer is a privilege tax imposed on all alcoholic beverage wholesalers doing business in North Dakota. In addition, microbrew pubs and domestic wineries pay the taxes on alcoholic beverages made by those facilities and sold directly to consumers. The pub or wineries may not engage in any wholesaling activities.

The State Tax Commissioner administers the tax and licenses wholesalers, microbrew pubs, and domestic wineries. The tax is collected on a monthly basis.

### Exemptions

If the alcohol is used for non-beverage purposes, it is exempt from the tax. These exemptions include:

- Denatured alcohol
- Patent, proprietary, medical, pharmaceutical, antiseptic and toilet preparations
- Flavoring extracts
- Syrups and food products
- Scientific chemical and industrial products
- Wines delivered to priests, rabbis and ministers for sacramental use

### Rates

The amount of the tax is determined by the type of beverage and the gallonage sold by a wholesaler. The tax rate schedule is as follows:

	Per Wine Gallon
Beer in bulk containers	\$ .08
Beer in bottles and cans	\$ .16
Wine (less than 17% alcohol)	\$ .50
Wine (17% to 24% alcohol)	\$ .60
Sparkling wine	\$ 1.00
Distilled Spirits	\$ 2.50
Alcohol	\$ 4.05

### Distribution of Revenue

Revenue from the liquor and beer tax is deposited in the State General Fund.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**1967 Session.** The alcoholic beverage tax law was rewritten and the tax rates were restructured.

**1991 Session.** Microbrew pubs became subject to the liquor and beer tax.

**1995 Session.** Bonding repealed.

**1995 Session.** Microbrew pubs became subject to new licensing requirements.

**1999 Session.** Establish penalties for the shipping of out-of-state sales of alcoholic beverages from an out-of-state location directly to a person in North Dakota who is not a wholesaler.

**2001 Session.** The wholesale alcoholic beverage administration was transferred from the state treasurer to the state tax commissioner effective July 1, 2001. Effective August 1, 2001, direct shippers of alcoholic beverages and farm wineries are required to obtain annual licenses and pay the wholesaler and applicable retailer taxes to the state tax commissioner.

**2003 Session.** The alcoholic beverages law was amended to replace "farm winery" with "domestic winery."

### Liquor and Beer Taxes Collections

Fiscal Year	Total Collections	Beer	Liquor
1994	5,196,200	2,353,878	2,842,321
1995	5,174,280	2,392,007	2,782,273
1996	5,175,220	2,420,748	2,754,401
1997	5,162,187	2,433,513	2,728,674
1998	5,269,318	2,497,087	2,772,231
1999	5,267,588	2,527,312	2,740,276
2000	5,420,486	2,578,923	2,841,563
2001	5,455,921	2,568,513	2,887,408
2002	5,493,783	2,603,197	2,890,586
2003	5,662,052	2,640,908	3,021,144
2004	5,910,349	2,727,660	3,182,689

SOURCE: Office of State Tax Commissioner.



## Comparison of State Tax Rates - Beer

### January 1, 2004

State	State Rate on Beer (\$ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	\$0.53	Yes	\$0.52/gallon local tax
Alaska	0.35	n.a.	
Arizona	0.16	Yes	
Arkansas	0.23	Yes	under 3.2% - \$0.16/gallon; \$0.008/gallon and 3% off- and 10% on-premise tax
California	0.20	Yes	
Colorado	0.08	Yes	
Connecticut	0.19	Yes	
Delaware	0.16	n.a.	
Florida	0.48	Yes	\$2.67¢/12 ounces on-premise retail tax
Georgia	0.48	Yes	\$0.53/gallon local tax
Hawaii	0.92	Yes	\$0.53/gallon draft beer
Idaho	0.15	Yes	over 4% - \$0.45/gallon
Illinois	0.185	Yes	\$0.16/gallon in Chicago and \$0.06/gallon in Cook County
Indiana	0.115	Yes	
Iowa	0.19	Yes	
Kansas	0.18	--	over 3.2% - (8% off- and 10% on-premise), under 3.2% - 4.25% sales tax
Kentucky	0.08	Yes	* 9% wholesale tax
Louisiana	0.32	Yes	\$0.048/gallon local tax
Maine	0.35	Yes	additional 5% on-premise tax
Maryland	0.09	Yes	\$0.2333/gallon in Garrett County
Massachusetts	0.11	Yes	* 0.57% on private club sales
Michigan	0.20	Yes	
Minnesota	0.15	--	under 3.2% - \$0.077/gallon. 8.5% sales tax
Mississippi	0.43	Yes	
Missouri	0.06	Yes	
Montana	0.14	n.a.	
Nebraska	0.31	Yes	
Nevada	0.16	Yes	
New Hampshire	0.30	n.a.	
New Jersey	0.12	Yes	
New Mexico	0.41	Yes	
New York <sup>(1)</sup>	0.11	Yes	\$0.12/gallon in New York City
North Carolina	0.53	Yes	\$0.48/gallon bulk beer
<b>NORTH DAKOTA</b>	0.16	--	7% state sales tax, bulk beer \$0.08/gallon
Ohio	0.18	Yes	
Oklahoma	0.40	Yes	under 3.2% - \$0.36/gallon; 13.5% on-premise
Oregon	0.08	n.a.	
Pennsylvania	0.08	Yes	
Rhode Island	0.10	Yes	\$0.04/case wholesale tax
South Carolina	0.77	Yes	
South Dakota	0.27	Yes	
Tennessee	0.14	Yes	17% wholesale tax
Texas	0.19	Yes	over 4% - \$0.198/gallon, 14% on-premise and \$0.05/drink on airline sales
Utah	0.41	Yes	over 3.2% - sold through state store
Vermont	0.265	No	6% to 8% alcohol - \$0.55; 10% on-premise sales tax
Virginia	0.26	Yes	
Washington	0.261	Yes	
West Virginia	0.18	Yes	
Wisconsin	0.06	Yes	
Wyoming	0.02	Yes	
District of Columbia	0.09	Yes	8% off- and 9% on-premise sales tax
U.S. (median)	\$0.188		

\* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, February 2004.

# Comparison of State Tax Rates - Wine

## January 1, 2004

State	State Rate on Wine (\$ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	\$1.70	Yes	Over 14% - sold through state store
Alaska	0.85	n.a	
Arizona	0.84	Yes	
Arkansas	0.75	Yes	under 5% - \$0.25/gallon; \$0.05/case; and 3% off- and 10% on-premise
California	0.20	Yes	sparkling wine - \$0.30/gallon
Colorado	0.32	Yes	
Connecticut	0.60	Yes	over 21% and sparkling wine - \$1.50/gallon
Delaware	0.97	n.a.	
Florida	2.25	Yes	over 17.259% - \$3.00/gallon, sparkling wine \$3.50/gallon \$6.67¢/4 ounces on-premise retail tax
Georgia	1.51	Yes	over 14% - \$2.54/gallon; \$0.83/gallon local tax
Hawaii	1.36	Yes	Sparkling wine - \$2.09/gallon and wine coolers - \$0.84/gallon
Idaho	0.45	Yes	
Illinois	0.73	Yes	over 20% - \$4.50/gallon; \$0.15/gallon in Chicago and (\$0.16-\$0.30)/gallon in Cook County
Indiana	0.47	Yes	over 21% - \$2.68/gallon
Iowa	1.75	Yes	under 5% - \$0.19/gallon
Kansas	0.30	No	over 14% - \$0.75/gallon; 8% off- and 10% on-premise
Kentucky	0.50	Yes *	9% wholesale
Louisiana	0.11	Yes	14% to 24% - \$0.23/gallon, over 24% and sparkling wine - \$1.59/gallon
Maine	0.60	Yes	over 15.5%-sold through state stores, sparkling wine - \$1.25/gallon additional 5% on-premise sales tax
Maryland	0.40	Yes	
Massachusetts	0.55	Yes *	sparkling wine - \$0.70/gallon
Michigan	0.51	Yes	over 16% - \$0.76/gallon
Minnesota	0.30	--	14% to 21% - \$0.95/gallon, under 24% and sparkling wine \$1.82/gallon; over 24% - \$3.52/gallon; \$0.01/bottle (except miniatures) and 8.5% sales tax
Mississippi	0.35	Yes	over 14% and sparkling wine - sold through the state
Missouri	0.30	Yes	
Montana	1.06	n.a.	over 16% - sold through state stores; 7% surtax
Nebraska	0.95	Yes	
Nevada	0.70	Yes	14% to 22% - \$1.30/gallon, over 22% - \$3.60/gallon
New Hampshire	see footnote <sup>(1)</sup>	n.a.	
New Jersey	0.70	Yes	
New Mexico	1.70	Yes	over 14% - \$6.06/gallon
New York	0.19	Yes	
North Carolina	0.79	Yes	over 17% - \$0.91/gallon
<b>NORTH DAKOTA</b>	0.50	--	over 17% - \$0.60/gallon, sparkling wine - \$1.00/gallon; 7% state sales tax
Ohio	0.30	Yes	over 14% - \$0.98/gallon, vermouth - \$1.08/gallon and Sparkling wine - \$1.48/gallon
Oklahoma	0.72	Yes	over 14% - \$1.40/gallon, sparkling wine - \$2.08/gallon; 13.5% on-premise
Oregon	0.67	n.a.	over 14% - \$0.77/gallon
Pennsylvania	see footnote <sup>(1)</sup>	Yes	
Rhode Island	0.60	Yes	sparkling wine - \$0.75/gallon
South Carolina	0.90	Yes	\$0.18/gallon additional tax
South Dakota	0.93	Yes	14% to 20% - \$1.45/gallon; over 21% and sparkling wine - \$2.07/gallon; 2% wholesale tax
Tennessee	1.21	Yes	\$0.15/case and 15% on-premise
Texas	0.20	Yes	over 14% - \$0.408/gallon and sparkling wine - \$0.516/gallon 14% on-premise and \$0.05/drink on airline sales
Utah	see footnote <sup>(1)</sup>	Yes	
Vermont	0.55	Yes	over 16% - sold through state store, 10% on-premise sales tax
Virginia	1.51	Yes	under 4% - \$0.2565/gallon and over 14% - sold through state store
Washington	0.78	Yes	over 14% - \$1.72/gallon; additional \$0.89 bottled or packaged by manufacturer, \$0.04 all others
West Virginia	1.00	Yes	5% local tax
Wisconsin	0.25	Yes	over 14% - \$0.45/gallon
Wyoming	see footnote <sup>(1)</sup>	Yes	
District of Columbia	0.30	Yes	8% off- and 9% on-premise sales tax, over 14% - \$0.40/gallon and Sparkling - \$0.45/gallon
U.S. (median)	0.64		

<sup>(1)</sup> All wine sales are through state stores. Revenue in these states is generated from various taxes, fees and net profits.

\* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, February 2004.

# Comparison of State Tax Rates - Distilled Spirits

## January 1, 2004

State	State Rate on Spirits (\$ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	see footnote <sup>(1)</sup>	Yes	
Alaska	\$5.60	n.a.	under 21% - \$0.85/gallon
Arizona	3.00	Yes	
Arkansas	2.50	Yes	under 5% - \$0.50/gallon, under 21% - \$1.00/gallon; \$0.20/case and 3% off-14% on-premise retail taxes
California	3.30	Yes	over 50% - \$6.60/gallon
Colorado	2.28	Yes	
Connecticut	4.50	Yes	under 7% - \$2.05/gallon
Delaware	3.75	n.a.	under 25% - \$2.50/gallon
Florida	6.50	Yes	under 17.259% - \$2.25/gallon, over 55.780% - \$9.53/gallon \$6.67¢/ounce on-premise retail tax
Georgia	3.79	Yes	\$0.83/gallon local tax
Hawaii	5.92	Yes	
Idaho	see footnote <sup>(1)</sup>	Yes	
Illinois	4.50	Yes	under 20% - \$0.73/gallon; \$0.50/gallon in Chicago and \$2.00/gallon in Cook County
Indiana	2.68	Yes	under 15% - \$0.47/gallon
Iowa	see footnote <sup>(1)</sup>	Yes	
Kansas	2.50	No	8% off- and 10% on-premise retail tax
Kentucky	1.92	Yes *	under 6% - \$0.25/gallon; \$0.05/case and 9% wholesale tax
Louisiana	2.50	Yes	under 6% - \$0.32/gallon
Maine	see footnote <sup>(1)</sup>	Yes	
Maryland	1.50	Yes	
Massachusetts	4.05	Yes *	under 15% - \$1.10/gallon; over 50% alcohol - \$4.05/proof gallon; 0.57% on private club sales
Michigan	see footnote <sup>(1)</sup>	Yes	
Minnesota	5.03	--	\$0.01/bottle (except miniatures) and 8.5% sales tax
Mississippi	see footnote <sup>(1)</sup>	Yes	
Missouri	2.00	Yes	
Montana	see footnote <sup>(1)</sup>	n.a.	
Nebraska	3.75	Yes	
Nevada	3.60	Yes	under 14% - \$0.70/gallon and under 21% - \$1.30/gallon
New Hampshire	see footnote <sup>(1)</sup>	n.a.	
New Jersey	4.40	Yes	
New Mexico	6.06	Yes	
New York	6.44	Yes	not more than 24% - \$2.54/gallon; \$1.00/gallon in New York City
North Carolina	see footnote <sup>(1)</sup>	Yes *	
<b>NORTH DAKOTA</b>	2.50	--	7% state sales tax
Ohio	see footnote <sup>(1)</sup>	Yes	
Oklahoma	5.56	Yes	13.5% on-premise
Oregon	see footnote <sup>(1)</sup>	n.a.	
Pennsylvania	see footnote <sup>(1)</sup>	Yes	
Rhode Island	3.75	Yes	
South Carolina	2.72	Yes	\$5.36/case and 9% surtax
South Dakota	3.93	Yes	under 14% - \$0.93/gallon, 2% wholesale tax
Tennessee	4.40	Yes	\$0.15/case and 15% on-premise; under 7% - \$1.21/gallon
Texas	2.40	Yes	14% on-premise and \$0.05/drink on airline sales
Utah	see footnote <sup>(1)</sup>	Yes	
Vermont	see footnote <sup>(1)</sup>	No	10% on-premise sales tax
Virginia	see footnote <sup>(1)</sup>	Yes	
Washington	see footnote <sup>(1)</sup>	Yes *	
West Virginia	see footnote <sup>(1)</sup>	Yes	
Wisconsin	3.25	Yes	
Wyoming	see footnote <sup>(1)</sup>	Yes	
District of Columbia	1.50	Yes	8% off- and 9% on-premise sales tax
U.S. (median)	\$3.75		

<sup>(1)</sup> In 18 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees, and net liquor profits.

\* Sales tax is applied to on-premise sales only.

SOURCE: Federation of Tax Administrators, February 2004.

# GAMING TAXES

## CURRENT LAW

### Imposition and Rates

**Gaming Taxes.** A gaming tax is levied each quarter on the total adjusted gross proceeds from games of chance conducted by licensed organizations. "Adjusted gross proceeds" is gross proceeds less prizes, North Dakota excise tax, federal excise tax, and bingo sales tax. The gaming tax rates are:

<u>Adjusted Gross Proceeds</u>	<u>Rate</u>
Up to \$ 200,000 .....	5%
\$ 200,000 to \$ 400,000 .....	10%
\$ 400,000 to \$ 600,000 .....	15%
Over \$ 600,000 .....	20%

In addition, a 4.5% excise tax is imposed on gross proceeds from pull tabs. The Attorney General administers the taxes.

**Pari-mutuel Taxes.** A pari-mutuel tax is levied upon total wagers placed at live and simulcast (off-track betting) race performances as follows:

- 2% of total wagers in the pari-mutuel pools for win, place and show.
- 2.5% of total wagers in the pari-mutuel pool for other wagers combining two or more horses.

In addition, 1.0% of all wagers is deducted for deposit in each of two special funds, and 1.5% of wagers combining two or more horses is deducted for deposit in three special funds.

Pari-mutuel taxes and special funds are administered by the North Dakota Racing Commission.

### Gaming Regulation

Certain organizations which conduct only limited sports pools, raffles, bingo, paddlewheels, twenty-one, or poker may be issued a local permit or charity local permit by a city or county.

In other instances, organizations must receive a license from the Attorney General to conduct games. The maximum number of sites an organization may operate is 25. The Attorney General conducts criminal history record checks of all potential new employees. Persons who have committed any felony or certain misdemeanor offenses are prohibited from being an employee in the gaming industry.

All net proceeds from games must be disbursed to educational, charitable, patriotic, fraternal, religious or public-spirited uses. "Net proceeds" is adjusted gross proceeds less allowable expenses and gaming tax. "Allowable expenses" per quarter are generally limited to 51% of the first \$200,000 of adjusted gross proceeds and 45% of adjusted gross proceeds over \$200,000, plus 2.5% of gross proceeds of pull tabs and cost of video surveillance equipment.

Organizations may conduct games of poker, twenty-one, punchboards, pull tabs, bingo, raffles, calcuttas, paddlewheels, and sports pools. Video surveillance systems are required at sites where twenty-one wagers exceed \$2 and gross proceeds from twenty-one activity exceed \$10,000 per quarter. Organizations may use dispensing devices to conduct pull tabs and have bar employees redeem players' winning pull tabs.

### Distribution of Revenue

**Gaming Taxes.** Revenue from the gaming and excise taxes is deposited in the State General Fund. For the 2003-05 biennium, the legislature appropriated up to \$617,000 of these taxes for cities and counties for gaming enforcement.

**Pari-mutuel Taxes.** Revenue from the pari-mutuel tax is distributed to the State General Fund. Revenues from the deductions are deposited in special funds used for promotion of the racing industry in North Dakota. These funds are the Purse Fund, the Breeders' Fund and the Race Promotion Fund. Unclaimed tickets and breakage are retained in the Race Promotion Fund.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**1977 Session.** Bingo, raffles, pull tabs, punchboards and sports pools were legalized. The gaming tax was established at 3% of adjusted gross proceeds.

**1979 Session.** The gaming tax rate was increased from 3% to 5% of adjusted gross proceeds.

**1981 Session.** The game of twenty-one with a \$2 maximum wager was legalized.

**1983 Session.** The tax rate was changed from 5% of adjusted gross proceeds to 5% on the first \$600,000 of adjusted gross proceeds and 20% on adjusted gross proceeds over \$600,000 per quarter.

**1987 Session.** The legislature legalized games of poker and on-track pari-mutuel wagering.

**1989 Session.** The game of calcuttas for certain North Dakota sporting events was legalized. The maximum wager for the game of twenty-one was increased from \$2 to \$5. Off-track simulcast pari-mutuel betting was legalized. The legislature changed the gaming tax rates on adjusted gross proceeds. A 2% excise tax was imposed on pull tab gross proceeds.

**1991 Session.** The game of paddlewheels was legalized with a \$2 maximum wager. Employees of bars were authorized to assist organizations that conduct pull tabs using dispensing devices. The State Gaming Commission was created.

**1993 Session.** The excise tax on pull tab gross proceeds was increased from 2% to 4.5%. Organizations were required to install a video surveillance system at certain sites for the game of twenty-one.

**1995 Session.** The work permit system was replaced by a law that enables the Attorney General's Office to conduct criminal history record checks of all potential new employees of organizations and distributors. Two and one-half percent of gross proceeds of pull tabs was added to the allowable expense limit for organizations.

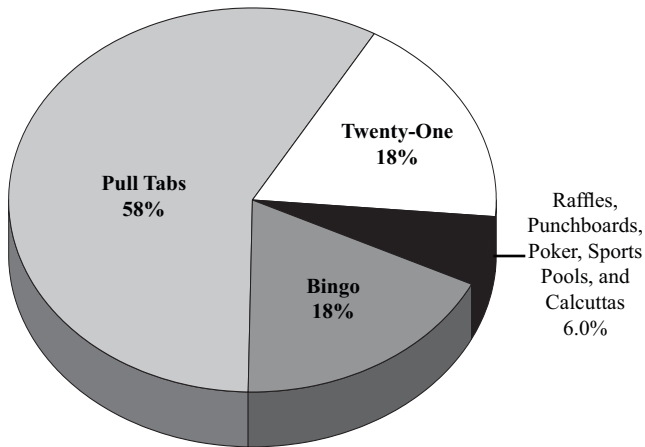
**1997 Session.** For the game paddlewheels, in which prizes are a variable multiple of the players' wagers, chips rather than paper tickets were authorized to be used. The organizations' allowable expense limit was increased for capital expenditures for security or video surveillance equipment. The license fee for manufacturers' of pull tabs, paper bingo cards, and or dispensing devices was increased to \$4,000. The Department of Human Services received an appropriation of \$150,000 to outsource contract for compulsive gambling prevention, awareness, crises intervention, rehabilitation, and treatment services.

**1999 Session.** The maximum monthly rent that an organization may pay a bar owner for conducting pull tabs or operating a dispensing device on a site increased. The attorney general was authorized to require certain organizations to make estimated gaming and excise tax payments.

**2001 Session.** Bingo halls and on-site food concessions were restricted from operating between the hours of 12 midnight Saturday through 12 noon on Sunday. Employees of bars were authorized to sell raffle tickets for organizations that are authorized to conduct games at those bars. Manufacturers of paper bingo cards and pull tabs were generally required to sell their products to all licensed distributors.

**2003 Session.** Authority was granted to the Attorney General's Office to allow an organization to pay delinquent tax, interest, and penalty on an installment plan. The license fee for manufacturers of pull tab dispensing devices only was reduced from \$4,000 to \$1,000. Employees of bars were authorized to provide limited assistance to organizations in the conduct of sports pools.

**Percentage Breakdown By Game**  
**Total "Gaming" Tax Revenue**  
**Fiscal Year 2003**



SOURCE: Attorney General's Office, Gaming Division.

**Excise Tax Collections**  
**Levied on Gross Proceeds of Pull Tabs**

<u>Fiscal Year</u>	<u>State General Fund</u>
1994	7,494,000
1995	7,793,000
1996	8,280,000
1997	8,061,000
1998	8,201,000
1999	7,473,000
2000	7,291,000
2001	7,041,000
2002	6,774,000
2003	6,715,000
2004 (estimate)	6,479,000

**Pari-mutuel Racing**  
**Tax Collections\***  
**Levied on On- and Off-Track Horse Racing**

<u>Fiscal Year</u>	<u>State General Fund</u>
1994	205,000
1995	107,000
1996	121,000
1997	99,000
1998	143,000
1999	245,000
2000	2,971,000
2001	3,875,000
2002	3,606,000
2003	4,461,000
2004 (estimate)	1,131,000

\* Horse racing taxes are deposited in the General Fund. Several other portions of wagers are distributed to other racing-related funds and are not included in the table.

SOURCE: Attorney General's Office, Gaming Division; and North Dakota Racing Commission. [NOTE: The tax collections exclude the effect of refunds which are immaterial.]

**Gaming Tax Collections**  
**Levied on Total Adjusted Gross Proceeds**

<u>Fiscal Year</u>	<u>Total Collections</u>
1994	3,655,000
1995	3,119,000
1996	3,343,000
1997	3,124,000
1998	3,345,000
1999	3,056,000
2000	3,178,000
2001	2,965,000
2002	3,520,000
2003	3,537,000
2004 (estimate)	3,446,000



# North Dakota Lottery

## CURRENT LAW

On November 5, 2002, North Dakota citizens approved a constitutional amendment that enabled the state to participate in multi-state lottery games. The 2003 Legislative Assembly passed House Bill No. 1243 that became law on April 4, 2003. This law, Chapter 53-12 (Lottery) of the North Dakota Century Code, created the North Dakota Lottery as a division within the Office of Attorney General. The law restricts the Lottery to online games. The administrative rules, Chapter 10-16 (Multi-State Lottery) of the North Dakota Administrative Code, address general rules, retailer, conduct and play, and game rules.

### Scope of Operation

The North Dakota Lottery division of the Office of Attorney General manages, regulates, enforces, and promotes the state-owned business enterprise and provides full financial accountability of its operation.

### Lottery Advisory Commission

The Attorney General and Chairman of the Legislative Council appointed a five-member Lottery Advisory Commission. The Commission serves as a policy advisory to the Attorney General and director of the Lottery and serves as the Audit Committee of the Lottery. The Commission oversees the general operation of the Lottery and is consulted on all substantive Lottery policies, plans, issues, contracts, timelines, and activities.

### Games

The Multi-State Lottery Association approved the North Dakota Lottery to conduct the games of Powerball®, Hot Lotto®, and Wild Card 2®. Powerball was launched on March 25, 2004. Hot Lotto was launched on June 24, 2004. Wild Card 2 was launched on September 23, 2004.

## Retailers

As of September 2004, the Lottery had 398 licensed lottery retailers located in 120 towns and cities throughout all 53 counties.

## FINANCIAL DATA

Financial data for the fiscal year (three months of activity) ended June 30, 2004:

- Total sales, excluding future sales, were \$5,768,602.
- Total prizes were \$2,790,398.
- Total estimated amount of net proceeds was \$1,738,000.
- Total estimated amount of net proceeds that is to be transferred to the state treasurer for deposit in the Compulsive Gambling Prevention and Treatment Fund was \$139,511. By law, the Lottery must transfer 5% of the gross profit, up to \$400,000, to this fund for the 2003-05 biennium.
- Total estimated amount of net proceeds that is to be transferred to the Multi-State Lottery Association for game prize reserve pools was \$94,000.
- Total estimated amount of net proceeds (balance) that is to be transferred to the state treasurer for deposit in the state general fund was \$1,505,000.

The estimated breakdown of each \$1 of sales is:

- Prizes - 48%
- Retailer commission - 5%
- Operating expense - 2%
- Administrative expense - 3.5%
- Advertising and marketing - 4.4%
- Online system vendor fee - 10.63%
- Net proceeds earned - 26.47% (not General Fund Revenue)

## General Fund Revenue

The Lottery's updated estimated sales and general fund revenue are:

<u>Biennium</u>	<u>Sales</u>	<u>General Fund Revenue</u>
2003-05	\$17,488,000	\$4,467,000
2005-07	\$26,499,000	\$7,110,000

# UNEMPLOYMENT INSURANCE

## CURRENT LAW

### Imposition

Employers are subject to the North Dakota Unemployment Compensation Law if they are subject to the Federal Unemployment Tax Act. A firm in the private sector is subject to the Unemployment Compensation Law if it employs one or more workers in each of 20 different weeks in a calendar year or has a quarterly payroll of \$1,500 or more.

The requirements also apply to an employer paying \$1,000 or more in wages for domestic services and an employer of agricultural labor employing 10 or more workers in 20 different weeks within a calendar year or paying cash wages of \$20,000 or more in any calendar quarter. A nonprofit organization having a 501-c-3 exemption (a federal income tax exemption covering charitable, religious and educational institutions) is subject to the tax if it employs four or more workers in each of 20 different weeks in a calendar year.

Excluded from unemployment compensation coverage are: services performed by insurance or real estate salespersons paid entirely by commissions, services performed for a parent by a child under the age of 18, services performed by the parents of the employer, and services performed by the wife or husband of the employer. Corporate officers and certain limited liability company managers with a 25% ownership may be excluded by written application.

Employers not otherwise liable under the law may request unemployment compensation coverage which, if approved, is effective for a minimum of two years.

### Taxes

**Wage Base.** For federal tax purposes, the taxable wage base is the first \$7,000 of each employee's wages. For state tax purposes, the taxable wage base is 70% of the statewide average annual wage. For 2004, the taxable wage base used for the North Dakota tax is \$18,500.

**Rate.** The employer pays the entire tax for both federal and state unemployment compensation taxes.

A newly liable employer is assigned the tax rate of 2.08% for 2004 (150% of the maximum rate in the positive account schedule) unless the employer is classified in a construction industry. The tax rate for new construction employers is 10.09% for 2004 (the maximum rate in the negative account schedule).

For other than newly liable employers, the employer's tax rate is determined by an experience-rating system, which establishes the rate on the basis of the employer's experience with the unemployment insurance program.

There are two tax rate schedules, Positive Balance and Negative Balance. The employer's lifetime reserve (contributions paid less benefits charged) determines which schedule applies. The rate an employer is assigned within the respective schedule is determined on the basis of the relationship between the employer's last 6-year reserve balance (contributions paid less benefits charged) and his or her 3-year average taxable payroll.

Employers with a positive reserve - employers had paid more in contributions than their former employees had collected in benefits - are assigned a rate in the Positive Balance Schedule. For 2004, rates for these employers range from 0.49% to 1.39%.

Employers with a negative reserve - their former employees having collected more in benefits than the employer had paid in contributions - are assigned a rate in the Negative Balance Schedule. For 2004, rates for these employers range from 6.49% to 10.09%.

Unemployment Insurance Tax Rates are recalculated each year and are effective on January 1 of the following year.

**Payments.** Taxes are paid quarterly to Job Service North Dakota. Certain nonprofit organizations, government agencies, and tribal entities may choose a reimbursement method of financing under which they repay Job Service only for unemployment benefits the state paid out to the organization's former employees.

## Benefits

An unemployed worker may file a claim for benefits by calling a toll-free number. If the claimant has sufficient wage credits in a base period, the claimant's most recent employer and all base period employers are notified that a valid claim for benefits has been filed. Employers and claimants have the right to appeal all decisions by Job Service. Claimants must meet all other eligibility requirement during each week for which they wish to draw benefits.

The minimum weekly benefit paid to a claimant is \$43 per week. If the claim computes to be less than that minimum, no benefits are allowed.

The maximum weekly benefit cannot exceed 65% of the average statewide weekly wage of all covered workers. The maximum weekly benefit is computed annually and takes effect on all claims filed with an effective date on or after July 1 of each year. For the period July 1, 2004 through July 1, 2005, the maximum weekly benefit amount is \$324.

Unemployed workers filing claims may be disqualified for unemployment compensation benefits if they voluntarily quit their last employment without good cause attributable to the employer; were discharged for misconduct connected with their last work; failed to apply for or accept suitable work; lost employment due to participation in a labor dispute; or failed to disclose work and earnings during a period of claim filing.

## Administration

Job Service North Dakota administers the state's unemployment insurance programs.

For more information on North Dakota's Unemployment Compensation Law, contact Job Service North Dakota at: PO Box 5507, Bismarck, ND 58506-5507 or e-mail at [jsuits@state.nd.us](mailto:jsuits@state.nd.us) or call toll-free 1-800-472-2952 or 702-328-2814 or check the Web site at [jobsnd.com](http://jobsnd.com). Persons who wish to file claims may call toll-free 1-888-263-3453.

## HISTORICAL OVERVIEW

### Significant Changes in Law

**1999 Session.** Changed the calculation of maximum weekly benefit amount (MWBA) to 62% of the state's average weekly wage unless the average contribution rate North Dakota employers paid was below the national average, then the MWBA will be 65%. Provided that if an employee of a temporary help agency, upon the completion of an assignment, fails to contact the temporary help agency for reassignment prior to filing for unemployment insurance benefits it will be considered a "voluntary quit". The employee must have been advised of this obligation and the consequences by the temporary help agency or it is not a "voluntary quit". Sunset the special duration schedule and tax for employers in SIC industry 161 on December 31, 1999. Established a trust fund solvency target at the amount of dollars the agency would need to pay unemployment insurance benefits for a year, based on the reserve ratio, if the agency paid those benefits at a rate equivalent to the average benefit cost rate calculated by averaging the highest annual benefit payout in the previous twenty years with the two highest annual benefit payouts in the last ten years. Established an evenly distributed tax rate schedule for Positive and Negative Balance Employers. Employers are assigned to a rate group, positive or negative, based on their cumulative lifetime experience with the program. They are assigned a rate within their rate group based on their most recent 6 years cumulative experience with the program. Defined how the maximum and minimum rates within the schedules must be set.

### **2001 Session.**

- Established that a manager of a Limited Liability Company (LLC) is an employee only if the LLC treats itself as a corporation for purposes of federal income taxation or the manager is not a member.
- Established that the application to exclude from employment the services of certain corporate officers or LLC managers with 25% or more ownership interest may now be filed within 60 day of formation of the corporation or LLC.
- Changed the Incremental Bonding provision to the Construction Risk Protection provision. This provision indicates a general or prime contractor, or the owner in those situations in which there is no general or prime contractor, of a large construction project shall pay the total amount of unemployment insurance benefits

paid to the employees of all employing units working on the project which exceeded the total amount of contributions collected from the employing units. In addition, a surety bond or an irrevocable letter of credit must be posted to insure payment.

- Established that an individual would not be disqualified from receiving unemployment insurance benefits if they voluntarily quit a job to return to an employer with whom they have a demonstrated job attachment.
- Changed how the "risk adjustment" tax rate assignment is determined when an employer's reported taxable payroll for a quarter is three times that employer's average taxable payroll. The rate will depend on the positive balance or negative balance status of the employer's account. Also clarifies that the rate adjustment will trigger if an account has a zero average taxable payroll.
- To insure compliance with the Federal Unemployment Tax Act (FUTA) state law established that with some exceptions, Indian Tribes are now treated similarly to State and local governments.
- Identified the exceptions to the rate limitation provision enacted in the tax rate determination legislation in the 1999 session.

**2003 Session.** Provides that the 10.99% "delinquent" rate will still be assigned to delinquent employers, EXCEPT:

1. Experience rated positive employers; and
2. New positive non-construction employers, will be assigned the negative employer minimum rate (presently 6.49% of taxable wages).

Prohibits collateral attacks on UI decisions which have become final (by virtue of failure to appeal or following an appeal). This prohibition on collateral attacks now, and in the new law, extends to JSND, the claimant, and "all employing units who had notice" of the determination. Also provides that base period employers who are contesting the charging of their accounts for benefits paid based on a separation from another employer are entitled to "receive data and information from job service North Dakota concerning the monetary basis for the claimant's right to the benefits at issue." Thus, a base period employer who is seeking to be non-charged can demand, in an appeal hearing, that JSND provide it with the cited data. Note that the data to be supplied only relates to the monetary basis of the claimant's right to benefits. That includes information concerning the status of earnings to overcome disqualification.

Finally, provides that JSND is not required, at a hearing in which a base period employer is challenging being

charged, to call or subpoena either the claimant or the claimant's last or most recent employer.

Provides that "supplemental unemployment compensation" payments provided by an employer can be considered nontaxable for UI tax purposes, AND also will not be considered wages for UI benefits qualifications purposes, if the payments are made pursuant to a plan that meets the statutorily defined eight requirements. Thus, if the employer has a supplemental UC plan which meets the requirements, amounts paid in accordance with that plan will not have to be reported by a claimant as earnings, and the employer will not have to report those payments as wages on its quarterly report.

Requires employing units to keep certain records, and authorizes inspection "by employees of job service North Dakota" assigned responsibility to inspect and report on the information in the records for the purpose of determining the amounts of wages paid, the number of employees, wage expenditures, and such other information as may be necessary to carry out the UI law. Records are defined to include electronic records. Refusal to submit records to inspection is subject to a civil penalty of "five hundred dollars for each offense."

Allows noncharging of base period employers' accounts when, during the base period, the claimant voluntarily quit or was discharged for misconduct by the base period employer.

Allows base period employers who are currently employing a claimant part-time, and who have not changed the claimant's hiring agreement, not to have their accounts charged with benefits paid to the claimant.

Changes deadline for sending out tax rate notices from December 1 to the end of the first full week in December, but no later than December 10. Also defines when an employer which, receiving notice of its rate, attempts to challenge on the basis that the rate is premised on a charge history which did not belong to that employer. Presently, an employer can only challenge that alleged situation if it was "not a party" to the previous determination. The new law defines when an employer was "not a party" by saying that will only be the case where the employer did not receive notice of the underlying determination.

An owner/claimant will be considered to have "ceded" his business. A business will be considered "ceded" for the purpose of determining the claimant's monetary eligibility in four circumstances cited in the statute.

**Unemployment Insurance Benefit Payments**  
**For year ending September 30**  
**\$ Millions**

<b><u>Fiscal Year</u></b>	<b><u>Benefit Payments</u></b>
1994	27.3
1995	29.1
1996	31.6
1997	36.9
1998	31.7
1999	39.1
2000	37.5
2001	41.4
2002	45.1
2003	45.1
2004 (estimate)	44.6

SOURCE: Job Service North Dakota

**Average North Dakota Employer Tax Rate and  
Unemployment Insurance Tax Revenue**

<b>Calendar Year</b>	<b>Average Employer Tax Rates</b>		<b>Tax Revenue</b>
	<b>Percent of Total Wages</b>	<b>Percent of Taxable Wages</b>	
1994	0.66%	1.22%	25,108,174
1995	0.61%	1.12%	24,997,172
1996	0.48%	0.86%	20,709,398
1997	0.48%	0.87%	22,006,387
1998	0.60%	1.10%	29,699,094
1999	0.62%	1.12%	32,313,656
2000	0.69%	1.26%	38,043,573
2001	0.71%	1.28%	40,413,437
2002	0.72%	1.31%	41,809,970
2003	0.87%	1.60%	53,118,506
2004 (est.)	0.87%	1.60%	55,661,000

SOURCE: Job Service North Dakota



# WORKERS COMPENSATION

## CURRENT LAW

### Imposition

The intent of the workers' compensation program is to take care of injured workers' medical bills; provide wage-loss, impairment and rehabilitation payments; and in the case of death, provide monthly payments to spouses and dependents. A properly insured employer is immune from lawsuits for on-the-job injury of an employee.

Employers must include all employees, except those specifically exempted by law, in the workers' compensation insurance program. Exclusions include farm and ranch workers, domestic workers, clergy, federal employees, railroad employees, newspaper delivery people, and real estate brokers and salespeople who operate under a signed contract as an independent contractor. Coverage is optional for employers, resident family members under the age of 22, the spouse of an employer, and self-employed individuals.

### Premiums

In North Dakota, workers' compensation insurance is financed through premiums paid by employers. These premiums are among the lowest in the nation. Premiums for each employer are calculated using payrolls, job-based premium rates, and loss history.

Employers report their payroll to Workforce Safety & Insurance (WSI) on an annual basis, according to the effective date on the employer's account. The amount of payroll used to calculate the premium for each worker is limited to 70% of the state's average annual wage. This "wage cap" was \$18,500.00 as of July 1, 2004.

Premium rates are set for more than 141 job classifications based on occupational risk, employers' accident experience, medical costs and benefit levels. Premium costs up to the cap per employee range from 34 cents per \$100 of payroll for clerical workers to \$21.54 per \$100 of payroll for iron or steel construction, which is one of the highest classifications.

Employers pay premiums to WSI annually. Some employers may elect to make monthly payments with interest.

An employer who successfully participates in the Risk Management Program is entitled to a 5% discount on their annual premium. They can also receive an additional 3% discount for implementing a Substance Abuse Program and an additional 2% discount for utilizing their Designated Medical Provider option, bringing the total savings to 10%.

Employers with annual gross premium under \$10,000 can participate in the New Small Account Safety Incentive Plan. This easy to implement program yields an 8% discount to participants. An employer cannot participate in both programs.

### Benefits

An injured worker is responsible for filing a claim. He or she must do so within one year of the date of the injury to be eligible to receive disability and/or medical benefits for the time they are unable to work because of the injury. The injury itself must be reported to employers within seven days. Employers must then report to WSI within seven days of receiving the report from the worker. Any injury/disability must be substantiated by medical evidence.

An injured worker's medical treatment is monitored through a managed care program and is subject to a medical fee schedule. WSI reimburses the injured worker for "reasonable and necessary" medical treatment.

Wage-loss benefits for a worker disabled for at least five days are based on 66 2/3% of the worker's gross weekly wage, not to exceed 110% of the state's average weekly wage. On July 1, 2004 the state's average weekly wage was \$577. Additional weekly allowances of \$10 are paid on each child under age 18 or incapable of self-support, or age 18 to 22 if a full-time student.

Workers with medical restrictions are evaluated through a workability assessment to determine ability to return to work and eligibility for rehabilitation benefits, which may include formalized training.

Workers who suffer permanent loss of use of a body part may qualify for a one-time lump sum "permanent partial impairment" payment.



WSI pays death benefits to the survivors of workers killed in work-related accidents. Benefits are paid to the eligible spouse of the dependents of the deceased worker at a rate of 2/3 of a deceased worker's weekly wage, up to 110% of the state's average weekly wage. They will also be paid \$10 per week for each dependent child. Additionally, the surviving spouse receives a one-time death benefit of \$1,200, plus \$400 for each dependent child. There are also scholarships available for dependents and spouses. The Bureau pays all medical bills related to the compensable injury and death of a worker, including up to \$6,500 for funeral expenses. Total benefits may not exceed \$250,000 over the lifetime of a claim.

## **Dispute Resolution**

The Office of Independent Review helps workers and employers on claims issues and serves as a litigation alternative.

Injured workers may appeal WSI decisions of benefit claims by requesting an administrative hearing, or by appealing to the district court. WSI pays the injured worker's attorney fees only if the worker wins the appeal and only if the worker sought assistance from the Office of Independent Review before appealing. Attorney fees may not exceed 20% of the amount in dispute.

## **Fraud**

A special Fraud Unit within the Bureau investigates workers, employers, and providers suspected of committing fraud. Fraud unit savings as of the end of 2003 were nearly \$25 million.

## **Administration**

WSI administers the state's workers compensation program. For more information on Workforce Safety & Insurance, write to Workforce Safety & Insurance, 600 East Century Avenue, Suite 1, Bismarck, ND 58506-5685, call (701)328-3800, or call the HelpLine 1-800-777-5033.

# **HISTORICAL OVERVIEW**

## **Significant Changes in Law**

**1991 Session.** The legislature created binding arbitration as an alternative dispute resolution process, mandated

a managed care program and use of a third party administrator to monitor injured workers' medical care, and mandated that NDWC adopt a hospital and medical fee schedule. Employers were required to reimburse NDWC up to the first \$250 of medical expenses for each claim. The wage base for computing the premium was changed from \$3,600 to 70% of the state's average annual wage.

**1993 Session.** The legislature created a system of binding dispute resolution for disputes arising out of NDWC managed care program. The legislature approved a risk management program which allows employers a 5% discount on annual premiums if they design and implement a NDWC approved safety program. Suspension of benefits was allowed if an employee applies for benefits in another state for the same injury. An "other states" coverage program was established regarding payments of benefits to North Dakota-covered workers whose injury, disease, or death occurred in another state.

**1995 Session.** Workers were required to report injuries to their employers within seven days. NDWC was allowed to use failure to report as a factor in determining claims. Employers with approved risk management programs were allowed to choose medical providers. If a worker wants to choose the provider, the worker must notify the employer in writing before an injury occurs.

The legislature revoked wage-loss and rehabilitation benefits for workers who do not comply with rehabilitation plans. Wage-loss benefits were stopped when injured workers become eligible for Social Security Retirement benefits. Permanent Partial Impairment (PPI) compensation was limited to workers with over 15% whole body impairments.

A workers' adviser program was set up to serve as a litigation alternative and to help injured workers' compensation process. NDWC was authorized to set up a special fraud unit. Fraud involving over \$500 was changed from a class A misdemeanor to a class C felony. Attorney fees may no longer exceed 20% of the amount a claimant receives nor may they be paid by NDWC if the claimant loses.

**1996 Referred and Initiated Measures.** Voters in the June 1996 primary election upheld the changes made by the 1995 legislature.

**1997 Session.** The 1997 legislature changed the law to increase certain benefits, streamline claims processes,

enhance system efficiency, further restrict the potential for fraud, reduce litigation and adjust earlier reforms. The legislature also placed NDWC within the oversight of a board of directors made up of NDWC constituents appointed by the Governor. NDWC continues to be managed by an executive director who reports directly to the board. This law also mandated that independent, qualitative performance audits be conducted on all departments every two years with the result being presented to the legislature. These audits must be performed by independent firms recognized as experts in the workers' compensation industry.

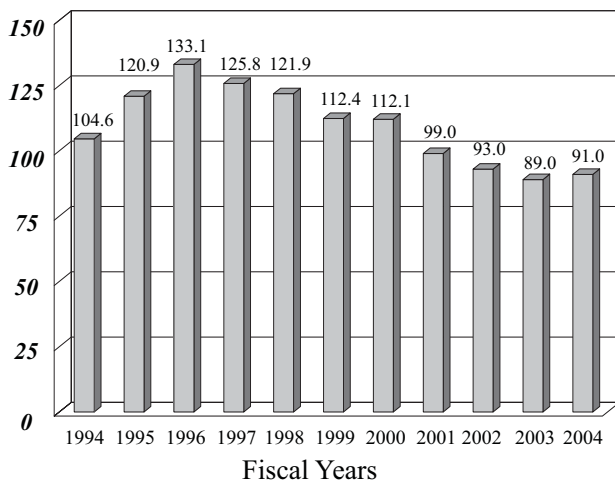
**1999 Session.** The 1999 legislature substantially increased cash benefits for the severely impaired, increased the maximum disability benefit (making North Dakota's maximum benefit rate one of the highest in the country), shortened the eligibility period for supplemental benefits, and increased the size of scholarships available to dependents of workplace fatality victims. Another major piece of 1999 legislation provides authority for NDWC to issue grants to high risk industries for prevention of workplace accidents. Additionally, the bill allows NDWC to offer dividends, deductibles, group insurance and other products that give employers direct financial incentives for protecting the safety of their workers.

**2001 Session.** Authorized the construction of a new building in north Bismarck to house NDWC and required NDWC to include rental space for other state agencies. Provided incentives for employers to hire previously injured workers in positions that will accommodate the worker's restrictions resulting from a work injury (the program was subsequently named, "The Preferred Worker Program). Prohibited an employer from requiring an employee to use accrued personal leave for time off work for a work-related disability. Increased awards for certain impairment. Provided that an employer may be found guilty of fraud for making false statements to get a claim or benefit paid. And repealed the sunset clause on the scholarship fund for children of workers killed on the job.

**2003 Session.** Changed the organization's name to Workforce Safety & Insurance. Death benefits were increased from \$197,000 to \$250,000. Allows for the limited release of information on the status of an employer's account. Changed the make-up of the WSI Board of Directors, shortened the terms from 6 to 4 years and made the Medical member a voting member and added an at-large member. Removed the re-marriage penalty. Increased the amount of money to \$50,000 for WSI to spend on home modifications for the catastrophically injured.

### Premium Income North Dakota Workers Compensation

Millions  
of Dollars



SOURCE: Workforce Safety & Insurance

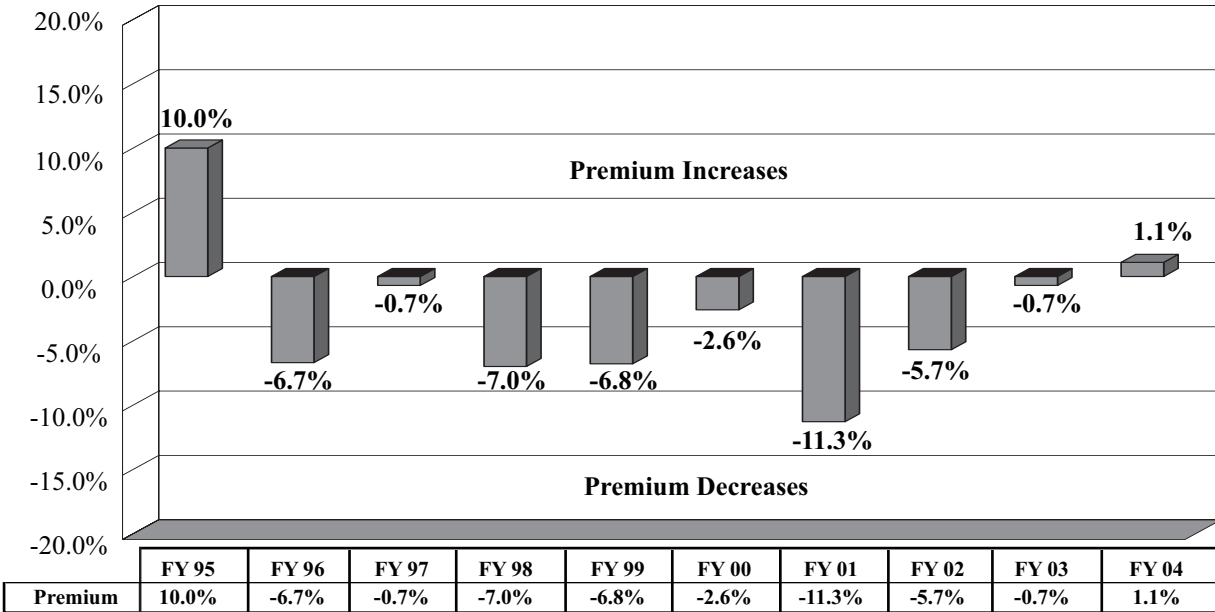
### North Dakota Workers Compensation Premiums Example of Low (Clerical) and High (Iron or Steel Construction)

#### Maximum Per Employee Charge

Year	Clerical	Iron or Steel Construction
1994	50.70	4,082.00
1995	52.26	4,207.60
1996	52.82	4,235.33
1997	49.70	4,037.06
1998	48.84	3,842.08
1999	49.92	3,948.36
2000	54.74	4,066.86
2001	52.70	3,420.40
2002	53.94	3,500.88
2003	55.80	3,621.60
2004	62.90	3,984.90

SOURCE: Workforce Safety & Insurance

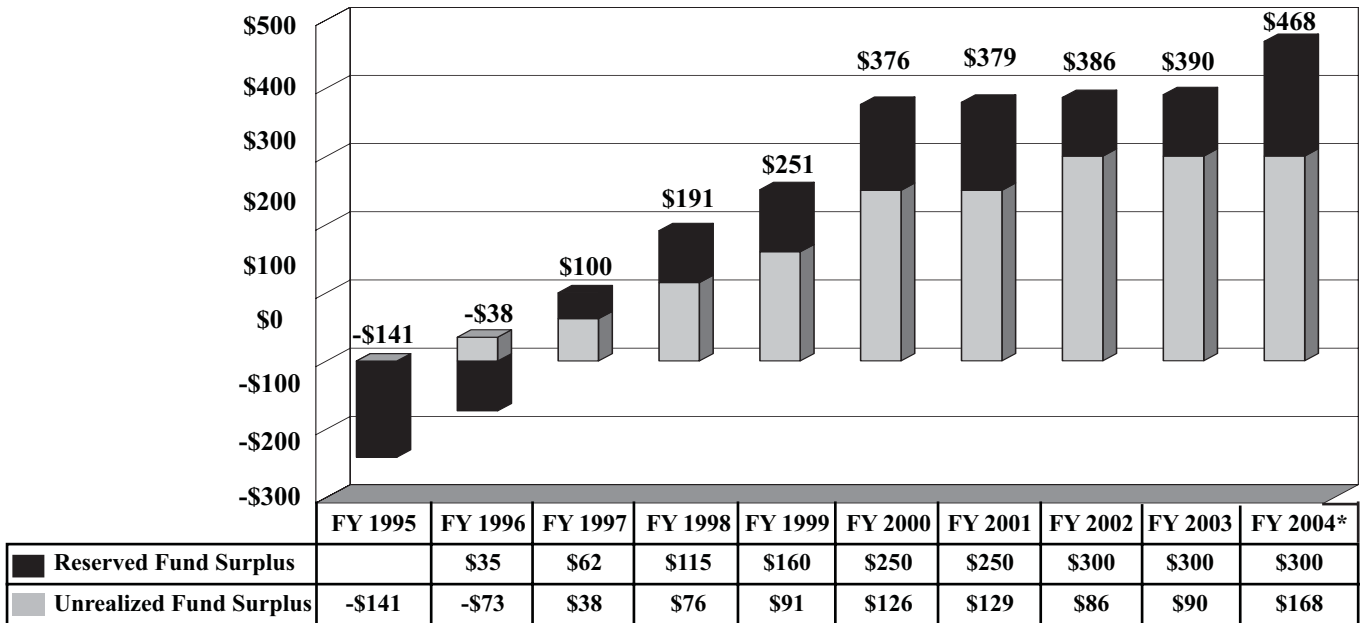
## Workforce Safety & Insurance Average Premium Change History



Premium changes are effective July 1 of each fiscal year

SOURCE: Workforce Safety & Insurance

## Workforce Safety & Insurance Fund Surplus



\* as of May 31, 2004

SOURCE: Workforce Safety & Insurance

## Workers' Compensation Premium Rate Per \$100 of Payroll

<u>Rank</u>	<u>State</u>	<u>Index Rate</u>
1	California	5.23
2	Florida	4.50
3	Hawaii	3.48
4	Delaware	3.38
5	Rhode Island	3.29
6	Texas	3.29
7	Louisiana	3.19
8	New York	3.13
9	Montana	3.04
10	Nevada	3.02
11	Alabama	2.96
12	Connecticut	2.90
13	Ohio	2.89
14	Alaska	2.87
15	Kentucky	2.87
16	District of Columbia	2.86
17	New Hampshire	2.85
18	Oklahoma	2.82
19	Illinois	2.73
20	Colorado	2.73
21	Minnesota	2.60
22	Pennsylvania	2.57
23	West Virginia	2.53
24	Vermont	2.45
25	Missouri	2.39
26	Idaho	2.37
27	Georgia	2.32
28	Maine	2.30
29	Tennessee	2.30
30	Michigan	2.25
31	New Jersey	2.25
32	Wisconsin	2.22
33	Mississippi	2.21
34	North Carolina	2.17
35	Oregon	2.06
36	New Mexico	2.01
37	Massachusetts	1.98
38	Wyoming	1.97
39	Nebraska	1.93
40	Maryland	1.84
41	Kansas	1.84
42	South Carolina	1.82
43	Iowa	1.74
44	Utah	1.67
45	Washington	1.65
46	Arizona	1.63
47	Arkansas	1.62
48	South Dakota	1.61
49	Virginia	1.50
50	Indiana	1.37
<b>51</b>	<b>NORTH DAKOTA</b>	<b>1.24</b>

Rates vary by classification and insurer in each state. Actual cost to an employer can be adjusted by the employer's experience rating, premium discount, retrospective rating, and dividends.

SOURCE: Research and Analysis Section, Oregon Department of Consumer & Business Services 2002.





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